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Analysis of the German trust fund portfolio at the World Bank and guidance on reforms

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BMZ Federal Ministry for Economic Cooperation and Development

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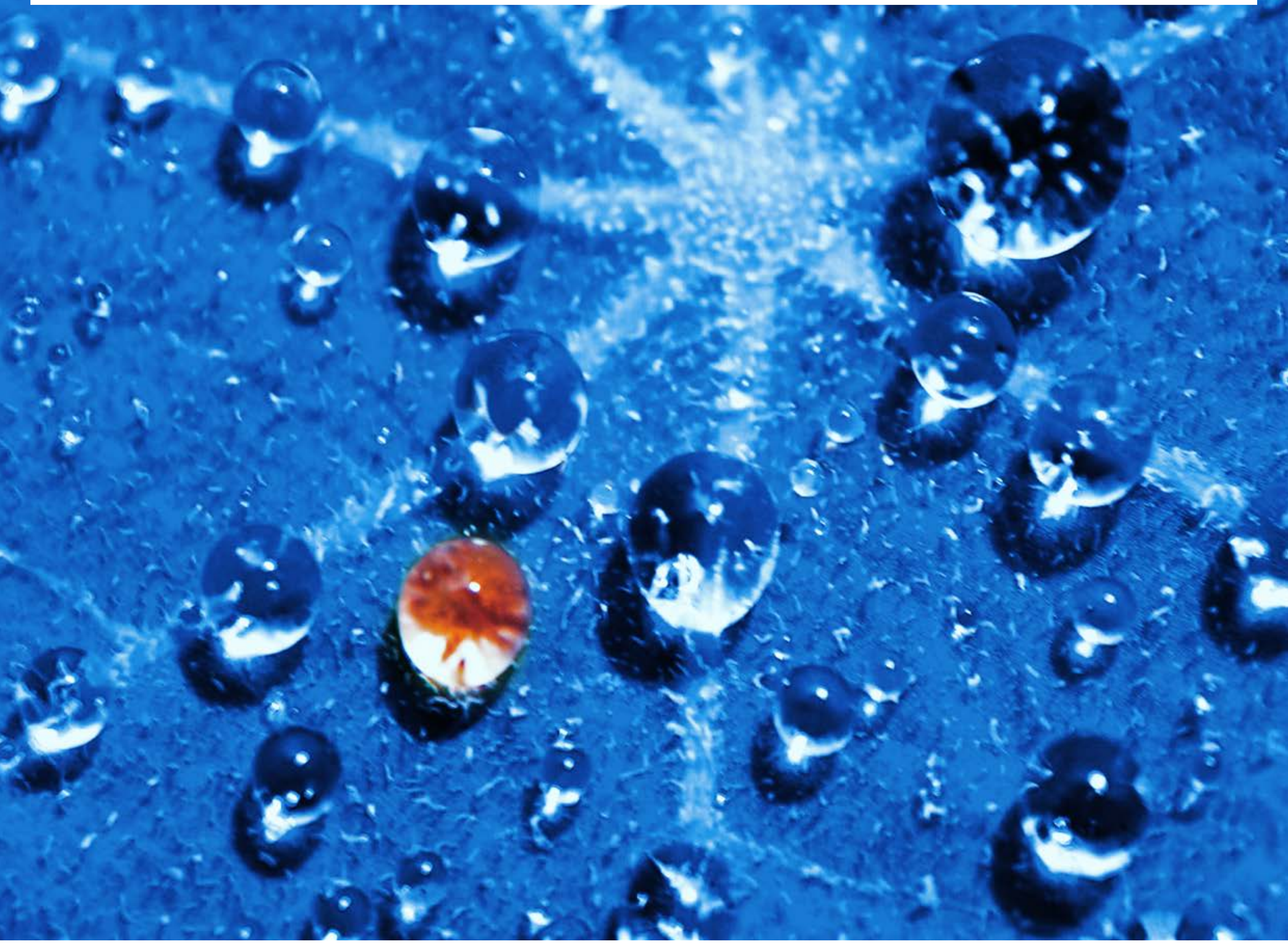

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joyn-coop is a consulting company that promotes human development, using a cross-sectoral approach that transfers knowledge and practices from academia and the private sector to development cooperation. joyn-coop's founding partner Christina Kükenshöner led the project and the team of consultants consisting of Sophie Herrmann and Bernhard Reinsberg. We would like to thank Yared Tesfaye for his support in research and data analysis and also Reinhard Palm (BMZ), Katja Röckel and Ursula Stiegler (both GIZ) for their contributions and editing input.

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Analysis of the German trust fund portfolio at the World Bank and guidance on reforms

Report

March 2014

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The study 'Analysis of the German trust fund portfolio at the World Bank and guidance on reforms' was commissioned as part of the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH sector project 'International positioning of German development cooperation in development economics' on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ).

Executive Summary

Trust funds (TFs)[1] have become an increasingly important funding mechanism for development at the World Bank, to a degree that the World Bank has moved to mainstreaming the instrument and including it in its budgeting cycle under the TF reform agenda. Germany, albeit already an important shareholder of the International Bank for Reconstruction and Development (IBRD) and an important donor to the International Development Association (IDA), has steadily increased its portfolio of TFs at the World Bank over the last years. Within the German TF portfolio, major stakeholders are the Federal Ministry of Economic Cooperation and Development (BMZ) as well as its implementing organizations KfW Development Bank (KfW) and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH.

Given the increasing number of TFs, their importance for the World Bank and the number of German actors involved, there are several perceptions which have motivated the commissioning of the present study: (i) a lack of overview of the current status of the German portfolio as a whole and of the different types of TF arrangements; (ii) the apprehension that a growing portfolio might lead to fragmentation; (iii) as a result the hypothesis that there is potential for consolidation; and (iv) the concern that inefficiencies exist in the allocation, negotiation and management of TFs that can be removed. Based on the findings, Germany's goal is a) to achieve a consolidated opinion to the allocation of TFs at the World Bank and to strengthen Germany's position in negotiations, b) to refine its position towards the TF reform agenda and c) to use the study as an informative background for entering into a strategic discussion with the World Bank on German TF contributions, akin to the Joint Donor TF Portfolio Reviews and Strategic World Bank-Donor Consultations already conducted by a number of other donors.

The consulting company joyn-coop, commissioned by GIZ on behalf of BMZ, combined a portfolio review with an analysis of the related Administrative Agreements (AAs) and an in-depth analysis of eight selected cases. To this end, joyn-coop held interviews with stakeholders in the World Bank as well as the three German development institutions on their experience with TFs.

The overall and German trust fund portfolios: status quo and reform process

Since the millennium TFs have grown dynamically at the World Bank. At present, the TF volume has surpassed IDA contributions over the last replenishment periods since the 13th IDA replenishment period (2003-2005). However, Germany has traditionally focused its support to the World Bank on IDA core contributions, which account for about 88% of its total funding routed through the World Bank. The remaining 12% have supported TFs supervised or executed by the World Bank. Depending on the type of TF, the World Bank assumes various roles in managing those funds. For Financial Intermediary Funds (FIFs), which typically support multi-donor global programs on global public goods issues, it provides financial trustee services and in selected cases is involved in implementation. In other TFs, IBRD/IDA TFs and IFC (International Finance Corporation) TFs, it also supervises or executes those funds under a considerable variety of possible governance mechanisms. The distribution between FIFs (69%), IBRD/IDA TFs (31%) and IFC TFs (<1%) in the German portfolio is in line with the overall distribution of TFs handled by the World Bank. A number of other donors channel more than 50% of their TF contributions into IBRD/IDA TFs and the smaller portion into FIFs.

The present study concentrates on IBRD/IDA TFs, which are supervised or executed by the World Bank, excluding the small number of IFC TFs as well as FIFs. We find that in FY13, Germany accounted for about 10% (or USD 937 million) of the overall IBRD/IDA TF portfolio and for 4% (or USD 167 million) of total annual cash contributions. Germany almost exclusively supports multi-donor TFs, as opposed to single-donor TFs. This differs from the overall distribution at the World Bank, where about 25% of all TFs are still supported by a single donor, although this share is declining. Germany has a clear focus on fragile states (79% in its portfolio, compared to 39% in the overall portfolio), and a regional focus on South Asia – not only due to the Afghanistan Reconstruction TF, which accounts for half of the German TF portfolio. Germany has a strong focus on TFs supporting interventions

[1] A trust fund is a financing arrangement established with contributions from one or more external donor(s)/partners to a multilateral aid institution to support specific development-related activities.

at the country level or regional priorities (average amount of USD 26.9 million). In contrast, its support for TFs aimed at creating knowledge and disseminating new approaches for development is rather low in terms of amounts (average of USD 3.4 million).

When looking at the **set-up process of TFs,** we find that Germany participates foremost in the conceptualization during initial discussions of a proposed TF's objective. The preparatory work of institutional due diligence and management approval are however Bank-internal processes that cannot be influenced or expedited by the German side. Following negotiations between World Bank teams and German stakeholders, a contractual agreement on roles and responsibilities of the trustee and contributing donor is formalized in the AA. A number of clauses in the AA are non-negotiable. Nonetheless, our analysis of AAs reveals that contribution schedules, activities and objectives, as well as governance structures are key aspects of negotiation. Here, German AAs have considerable variety. Albeit unlikely to be part of the AA document, Results Frameworks are an important discussion point in the set-up of TFs. They should be requested as part of the process but are living documents, which will continue to evolve during the TF lifecycle.

Governance arrangements: In terms of institutional structures, there are three major categories of TF institutional set-ups, depending on the number of governance bodies (one tier to three tiers) and the scope of involvement of the donor in these bodies. Three major categories of governance structure can be distinguished. Within these categories up to 70 different combinations of governance bodies can however be found in practice. Germany mostly engages in two-tier governance structures with a Steering Committee developing the strategic direction with donor inputs, and a TF Secretariat at the World Bank, which manages day-to-day activities. Generally, the World Bank promotes a light version of governance arrangements. This particularly holds for Umbrella Facilities (UFs), large thematic TFs based on a World Bank sector strategy that preclude donor earmarking. The World Bank argues that in addition to the TF governance bodies there is always a World Bank-internal governance system for review and control.

To ensure manageability of the growing number of TFs and different arrangements, the World Bank gradually introduced steps to reform TF procedures. The **reform agenda focuses on four pillars** each of them being addressed over different time periods. These are (i) strategic alignment with the World Bank's portfolio, (ii) integration of TFs in business planning and budgeting process, (iii) cost recovery and efficiency, and (iv) oversight**.** The current reform phase focuses on alignment, which aims at making TFs a mechanism to support the World Bank‘s own core agenda.

Analysis of the German engagements in World Bank trust funds

The **in-depth-portfolio analysis** shows that Germany does not contribute to fragmentation of the World Bank's TF portfolio to a large degree if judged against the number of funds (49 TFs). However, the German portfolio in itself is fragmented in terms of the size of its contributions. It covers a large array of topics, with some heavily funded sectors such as fragile states and climate change but the majority of topics with rather insignificant contributions. 70% of TFs have contributions below USD 5 million and 40% even below USD 2 million. In contrast, only 12% of TFs in the overall World Bank portfolio have contributions lower than USD 2 million and only 33% have contributions lower than USD 5 million. Most of the large contributions are held by KfW, and most of the small ones by GIZ. As a result, KfW holds 56% of the TFs and GIZ only 2% in terms of volume. The remaining 53% are held by BMZ. Interestingly, though, the budget line dedicated to TF funding („Funds in Trust“ - FiT) only accounts for 13% of the overall German portfolio.

In our **case study interviews** with German TF managers and World Bank counterparts we found a number of common perceptions on best practices as well as some differing opinions. Both sides agreed that experience, institutional history and time investment are key for smooth set-up and management of TFs. German leverage in negotiations is highest when there is knowledge about bargaining options, creative use of formal and informal channels to push for objectives and a substantial amount of funding when opening a new TF. In the management of TFs, World Bank counterparts perceive Germany as particularly active at the technical and country levels. However, when it comes to strategic level discussions, Germany is perceived as a rather quiet donor, which uses informal channels less than other donors to push the agenda. World Bank interviewees also maintained that in addition to manpower and engagement, funding amounts play an important role for donor leverage in agenda setting. This is thought to be particularly true for large programmatic TFs for knowledge creation, where country-level interaction is not as influential as in some country TFs. This contrasts with the German perception that the contribution amount is rather secondary. Further leverage could be gained when Germany coordinated with other donors to promote shared objectives. Finally, both sides argued that TFs are a successful instrument when assessing our case studies with regard to the Paris Declaration criteria[2] as well as World Bank Independent Evaluation Group (IEG) criteria measuring suitability of TFs.[3]

Assessment of the German trust fund portfolio along guiding principles for multilateral policy

Combining the observations and portfolio analysis in an overall assessment of the German TF engagement along the three guiding principles for German multilateral development policy, we derive four key challenges from our assessment: (i) fragmentation, (ii) lack of engagement, (iii) lack of strategic direction, and (iv) lack of centralized information.

With regard to the first principle for German multilateral policy on „**Effective cooperation with multilateral organizations in an efficient international development architecture**", we find that Germany's portfolio is conducive to supporting both objectives and manageability of TFs at the World Bank, given its multi-donor TF approach and the manageable number of TFs. However, the German TF portfolio is spread over a large variety of topics and 70% of contributions are rather small, as shown in chapter 3. We thus identify some potential to reduce fragmentation in the German TF portfolio.

The second principle on „**Systematic and targeted agenda-setting at the international level"** materializes in country level TFs. However, TFs used for knowledge creation and sharing in networks, which are mainly situated at headquarter-level, are particularly relevant for realizing this principle. There are topics such as climate change, which clearly stand out as a German priority, and case interviews revealed that Germany is perceived as a very knowledgeable and vocal partner. However, Germany is perceived as rather quiet on other topics, given a lack of backup in terms of funding and own human resource capacities. Sometimes, this lack of engagement is in contrast to its own official prioritization of those areas, and makes successful agenda-setting rather unlikely.

Finally, Germany accomplishes its third principle on „**Pro-development interlocking of bilateral and multilateral aid**" mostly at the country level. In particular, Germany uses country-level TFs mainly in fragile states, where it might be the only funding tool available or the least burdensome to governments with weak institutional capacity. However, Germany does not realize its full potential in knowledge-creating TFs for the reasons of lacking engagement and fragmentation. A more robust engagement in those TFs would support bi-multi interlocking through knowledge-sharing.

Key challenges: Both fragmentation and lack of engagement may be related to our finding that there is no ex-ante collective decision-making process for TF contributions governed by a common strategy. The current BMZ decision-making process on TF contributions at the overall portfolio level is characterized by different strategies of the individual sector and regional units. The situation is also exacerbated by a lack of centralized TF information. There is so far no institutional capturing of either the overall structure of the TF portfolio or of the processes including best practices and experiences in TF set-up and management.

Opportunities to further develop the German trust fund portfolio

We recommend the following actions to address these key challenges. Our recommendations should thereby contribute to a greater awareness of German priorities pursued through TFs and a refined TF reform agenda position:

1. **Macro-level TF engagement policy**: To make its TF contributions more effective, Germany should follow a more strategic approach on TFs. Lacking such an approach, Germany is not likely to realize its full potential in using TFs as a mechanism to advocate its own development priorities at the World Bank. First, it should be assessed if TFs are indeed the right instrument for a particular topic or country or if the objectives can be better achieved by participation in World Bank decision-making bodies as shareholder (e.g. through special themes in IDA). Second, it should be assessed how Germany can best be involved in knowledge-creating TFs and in implementing TFs. The TF strategy should allow an informed decision for both types of TFs on the basis of the respective opportunities and corresponding German strengths.

[2] These are ownership, alignment, donor coordination, results focus, and mutual accountability.

[3] These are additionality, relevance, and distinctiveness.

2. **TF consolidation**: A strategic approach to TF allocation will help further reduce fragmentation. To this end, there are also "low-hanging fruits", particularly the closure of TFs in which neither the Bank nor Germany work anymore. Upon request by Germany, the World Bank will close down these TFs in the near future (7 TFs).

3. **Micro-level TF engagement policy:** To inform the strategy, but also in order to achieve a more effective and efficient engagement on the level of each individual TF, Germany should overcome the lack of centralized information on World Bank TFs and institutional history of all German institutions. First and foremost, all information on existing TFs must be gathered. The information flow also includes gathering and disseminating best practices on engagement and fund participation. German negotiators should be aware of their bargaining space and the fact that TF governance is not limited to participation in the Steering Committees but may take place in informal arenas.

4. **TF reform position:** Germany, as an important shareholder of the World Bank, should remain a vocal player in the ongoing TF reform debate. **While each of the four pillars is** relevant for making TFs an integral part of the World Bank, pillar 2 (budget integration and business process alignment of TFs) and pillar 4 (senior oversight) mainly reflect areas in which the Bank extends the scope of its own operational rules to TFs. Those pillars thus do not necessarily need active involvement of donors. Accordingly, we recommend focusing on the two remaining pillars, alignment (pillar 1) and cost recovery (pillar 3). Together with other donors, Germany should find a balance between flexibility and alignment. A key issue of debate refers to Umbrella Facilities advocated by World Bank management as a means to enhanced alignment of TFs with core activities. Alignment is an important means to curtail fragmentation, but Germany should be carefully tracking that flexibility does not get lost on the way towards increased standardization, for example through collective fundraising. Germany should continue to promote Results Frameworks, possibly by referencing to them in the AAs.

Outlook

While these actions will enable Germany to make more strategic use of TFs at the World Bank, to allocate and manage TFs more effectively and efficiently, there are a few points that need to be kept in perspective. Germany, together with other shareholders, must ensure that managing TFs does not undermine IBRD/IDA core budgets. In this regard, it should monitor the evolution of the overall resource base at the World Bank and periodically review progress on ongoing reforms.

The TF reform is also interlinked with the corporate reform of the World Bank. While the traditional matrix structure consisting of regions and networks will evolve into a set of global practices, the exact parameters of the reform are still unclear. Against this background, it can only be speculated how the ability to raise TFs and their day-to-day management will be affected. Once the actual outcomes of the overall reform become apparent, the German TF agenda should be put in this context and nuances reconsidered.

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AA	Administrative Agreement
AF	Africa
AFRSD	African Sustainable Development
ARTF	Afghanistan Reconstruction Trust Fund
B	Billion
BB	Bank Budget
BETF	Bank Executed Trust Fund
BMELV	Bundesministerium für Ernährung, Landwirtschaft und Verbraucherschutz/ Federal Ministry of Food, Agriculture and Consumer Protection
BMF	Bundesministerium der Finanzen/ Federal Ministry of Finance
BMJ	Bundesministerium der Justiz / Federal Ministry of Justice
BMU	Bundesministerium für Umwelt, Naturschutz und Reaktorsicherheit/ Federal Ministry for the Environment, Nature Conservation and Nuclear Safety
BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung/ Federal Ministry for Economic Cooperation and Development
BNPP	Bank-Netherlands Partnership Program
BOC	Basis of Commitment
BP	Bank Policy
CAF-TF	Country Assistance Framework Trust Fund
CAS	Country Assistance Strategy
CFP	Concessional Finance and Global Partnerships
CFPTO	Global Partnership and Trust Fund Operations
CFR	Corporate Financial Reporting
CGIAR	Consultative Group for International Agriculture Research
CIFs	Climate Investment Funds
CPF	Carbon Partnership Facility
CTR	Controlling
DC	Donor Committee
DDR	Disarmament, Demobilization and Reintegration
DEZA	Direktion für Entwicklung und Zusammenarbeit
DFID	Department for International Development
DSW	Deutsche Stiftung Weltbevölkerung
EAP	East Asia and Pacific
EC	European Commission
ECA	Europe and Central Asia
ED	Executive Director
EDF	European Development Fund

EFA	Education For All
EFA-FTI	Education For All – Fast Track Initiative
EITI	Extractive Industries Transparency Initiative
ESMAP	Energy Sector Management Assistance Program
EUR	Euro
FC	Financial Cooperation
FCPF	Forest Carbon Partnership Facility
FFO	Auswärtiges Amt/ Federal Foreign Office
FIF	Financial Intermediary Fund
FIRST	Financial Sector Reform and Strengthening Initiative
FiT	Funds in Trust
FPD	Financial and Private Sector Development
FY	Fiscal Year
GAFSP	Global Agriculture and Food Security Program
GEDO	German Executive Director's Office
GEF	Global Environment Facility
GENTF	Gender Trust Funds
GER	Germany
GFATM	Global Fund to Fight Aids, Tuberculosis, and Malaria
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
GPE	Global Partnership on Education
GPOBA	Global Partnership on Output-based Aid
GPSA	Global Partnership for Social Accountability
GRM	Grant Reporting and Monitoring
GRSF	Global Road Safety Facility
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
HDN	Human Development Network
HSDP	Health Sector Development Program
IBRD	International Bank for Reconstruction and Development
ICM	Implementation Completion Memorandum
ICR	Implementation Completion Report
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Cooperation
INGO	International Non-Governmental Organization
ISR	Implementation Status Report
I TF	Implementing Trust Fund

JSDF	Japanese Social Development Fund
KfW	KfW Entwicklungsbank/ KfW Development Bank
KST	Korea Trust Fund for Economic and Peace-building Transitions
K TF	Knowledge-creating Trust Fund
LAC	Latin America and the Caribbean
LEGCF	Legal department - Concessional Finance
LRTF	Liberia Reconstruction Trust Fund
M	Million
MAI	Multilateral Aid Institution
MDTF	Multi-Donor Trust Fund
MDTF-SS	Multi-Donor Trust Fund for South Sudan
MNA	Middle East and North Africa
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OP	Operational Policy
PBA	Program-based Approach
PFED	Partnership for Education Development
PforR	Program for Results
PKNW	Partnership and Knowledge Work in Fragile States
PREM	Poverty Reduction and Economic Management
PROFOR	Program on Forest
PSIA	Poverty and Social Impact Analysis
RETF	Recipient Executed Trust Fund
RF	Results Framework
SA	South Asia
SAP	Systems, Applications and Products in Data Processing
SC	Steering Committee
SDC	Swiss Development Cooperation Department
SDN	Social Development Network
SDTF	Single-Donor Trust Fund
SECO	Swiss Economic Cooperation Department
SIDA	Swedish International Development Agency
SPBF	Strategic Peace-Building Fund
SRTF	Strategic Results Facility
SV	Sektorvorhaben/ Sector Project
TC	Technical Cooperation
TDRP	Transitional Demobilization and Reintegration Program

TF	Trust Fund
TFC	Trust Fund Coordinator
TTL	Task Team Leader
UF	Umbrella Facility
UFGE	Umbrella Facility for Gender Equality
UK	United Kingdom
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
USD	United States Dollar
VPU	Vice Presidential Unit
WAVES	Wealth Accounting and Valuation of Ecosystem Services
WB	World Bank
WBG	World Bank Group
WSP	Water and Sanitation Program

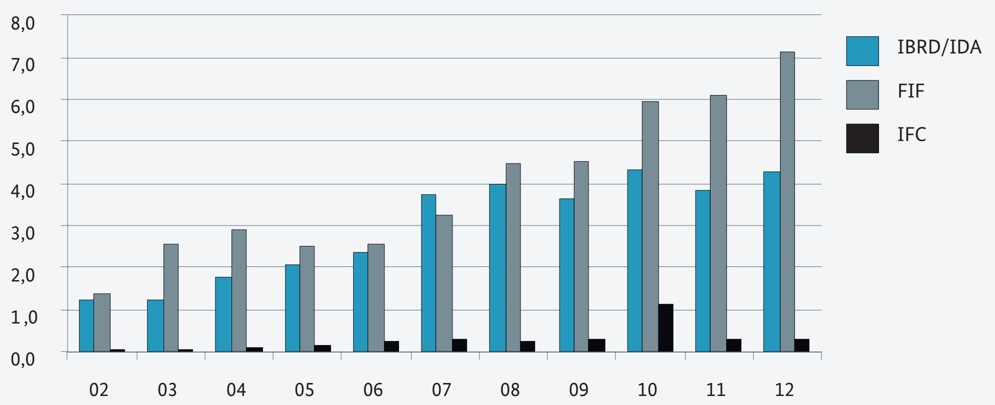
1 Introduction

The World Bank's operational lending and knowledge activities are financed by a variety of funding instruments, the core instruments being funding for the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The use of the core IBRD and IDA funding is governed by the World Bank's policies and overseen by its Board of Executive Directors. Since the late 1990s, donors have started to provide funding to the World Bank as trustee for activities that supplement the IBRD/IDA financed loans. Most of these trust funds (TFs) are grants to recipient countries or used for knowledge creation. These funds were initially not subject to the same procedural use and oversight by World Bank governance mechanisms.

this type of aid after the United Nations (66%).[6] Even though there has been a 10% decrease in the number of IBRD/IDA TFs during the last two years down to about 700 accounts, reflecting consolidation efforts by donors and the World Bank, the importance of TFs has further increased in terms of volume (see diagram 1).
This is especially true for Financial Intermediary Funds (FIFs), which typically support multi-donor global programs on global public goods issues and where the World Bank provides primarily financial trustee services and in selected cases is involved in implementation.

At present, the TF volume has surpassed IDA contributions over the last replenishment periods since the

Diagram 1: Cash contributions to World Bank trust funds, USD billions, FY02-12



Source: World Bank (2013a), IEG (2011).

Since the millennium TFs have grown dynamically at the World Bank.[4] This growth reflects an overall trend in Official Development Assistance (ODA) towards so-called multi-bi aid.[5] Absorbing one quarter of multi-bi aid, the World Bank is the second largest recipient of

13th IDA replenishment period (2003-2005).[7] At the end of FY13, the World Bank held about USD 30 billion in trust. Against this background, the World Bank has decided to make TFs a mainstream instrument in addition to IBRD and IDA funding. This decision is reflected in the ongoing TF reform process: Since the beginning of the millennium, the World Bank has made an effort to gradually align TFs with its core funding regarding the applicability of World Bank policies. Measures taken include safeguard policies and procedural aspects such as an institutional review and the

4 TFs have been used since the early 1960s (e.g., World Bank 2012a). However, TFs have become popular among donors only since the mid-1990s because they were championed as a flexible instrument to promote bilateral initiatives with World Bank staff.

5 If a donor channels ODA earmarked for a sector, theme, country, or region through a multilateral institution, such ODA is referred to as non-core multilateral ODA or multi-bi aid.

6 OECD (2012), Eichenauer and Reinsberg (2013).

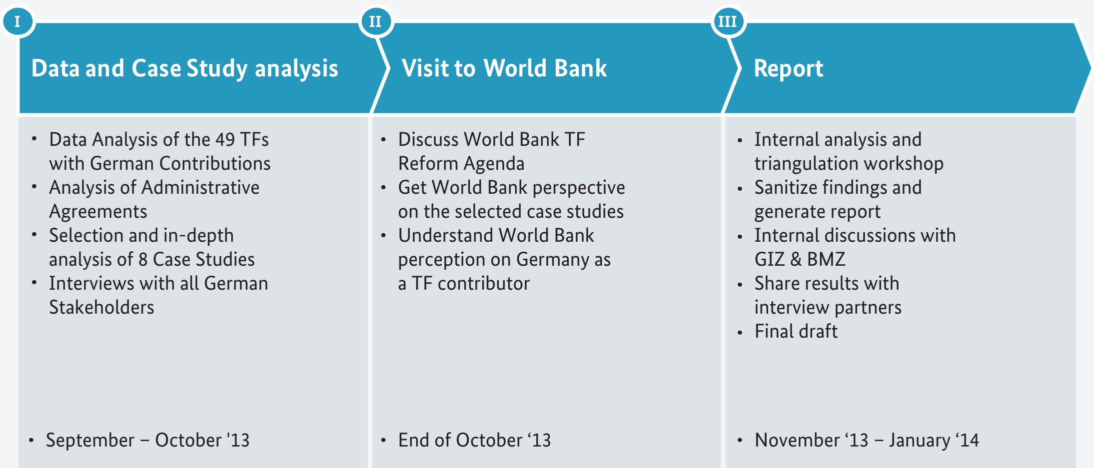
7 IEG (2011).

integration into regional activity portfolios. The discussion is now moving from the mechanics of a rather marginal instrument to the full strategic and budget integration of TFs as a mainstream instrument in the World Bank portfolio.

Germany's share of funds contributed to TFs supervised or executed by the World Bank is smaller than that of other large donors – i.e., 12% of total funding are contributions to IBRD/IDA and IFC TFs whereas 88% are contributions to IDA core funding.[8] In comparison, the United Kingdom's Department for International Development (DFID) channels 25% of its contributions into IBRD/IDA TFs. Besides Germany, also Austria, Belgium, France, and Switzerland do not make extensive use of TFs in relation to core funding.

Even with a smaller share of overall TF funding to the World Bank, Germany has recognized the overall growth of TFs and the move to make them an integral part of the mainstream set of instruments at the World Bank. Currently, there is no overall German strategy with regard to TF contributions by the Federal Ministry of Economic Cooperation and Development (BMZ) or the implementing agencies KfW Development Bank (KfW) and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). Therefore, Germany needs to develop a position towards the TF reform agenda in order to engage more actively in the reform process. Furthermore, Germany needs to refine its TF portfolio in consistency with its position to ensure the efficient allocation and effectiveness of its TF contributions.

Diagram 2: Process of the study



Source: joyn-coop.

Given their relatively small contributions, most of those donors have not formulated an overarching TF engagement strategy. Donors which use TFs to a larger extent and to complement their core contributions to the World Bank as well as their bilateral aid activities include inter alia the UK, the Netherlands and Sweden.[9]

Therefore, the GIZ sector project "Development Economics" has been asked by BMZ division 411 "World Bank Group, IMF, debt relief" to undertake an analysis of the German TF portfolio at the World Bank. GIZ commissioned the consulting company joyn-coop to conduct the review and to produce a report, which is to serve as the basis for internal discussions and strategic consultations with the World Bank. The review has been undertaken in close collaboration with World Bank's Global Partnership and TF Operations department (CFPTO). The department simultaneously conducted a TF portfolio analysis for Germany according to standard methodology applied also to the TF portfolios of other donors.

[8] FIFs are not considered here as the World Bank only provides financial trustee services. However, if they were considered, break-down of German contributions to World Bank FY04-FY13 would be IDA core: 61%, FIF: 31%, IBRD/IDA TF 7%, IFC TF: 0.1%, see World Bank (2014).

[9] World Bank (2014).

The joyn-coop team used a mix of quantitative and qualitative methods. These included an analysis of the overall German TF portfolio based on World Bank internal SAP data, a summary assessment of the German Administrative Agreements (AAs)[10] and a detailed qualitative evaluation of eight selected TF contributions. As part of the analysis, the team conducted 28 interviews with the German TF managers at BMZ, GIZ and KfW as well as with the respective counterparts at World Bank (see list of interviewees in Annex 1). In addition, joyn-coop conducted 25 interviews with key stakeholders in these institutions on legal, finance and other fundamental questions. Diagram 2 summarizes the process of the review.

This report summarizes all findings. Chapter 2 presents an overview of TFs at the World Bank by category and contrasts this with the German TF portfolio at the World Bank. In addition, it shows the set-up process of TFs and describes possible governance arrangements of TFs. It concludes with an overview of the ongoing TF reform process. Chapter 3 analyzes the German engagement in World Bank TFs portfolio in more detail and describes the motives for engagement of the key institutions (BMZ, GIZ, KfW). It also outlines the experience with World Bank-internal processes and governance arrangements based on an in-depth analysis of selected TF-case studies. Chapter 4 gives a summary assessment of the World Bank and German TF portfolio and outlines key challenges for the latter. Against this background chapter 5 discusses opportunities for consolidation of the German TF portfolio and develops initial thoughts on a TF engagement strategy for Germany as a donor. It also makes recommendations for German positions on the TF reform agenda. Chapter 6 provides a summary of open questions and issues for future discussion.

[10] We analyzed all 36 of the 49 AAs that were available.

2 The overall and German trust fund portfolios at the World Bank: status quo and reform process

This chapter provides an overview of TFs at the World Bank by category and compares it with the German TF portfolio at the World Bank. In addition, it outlines the setup process of TFs at the World Bank and describes governance arrangements of TFs, also comparing the range of options with those in German AAs. Finally, the ongoing TF reform process at the World Bank is discussed as it has significant implications for the governance of TFs.

2.1 Introduction to trust funds

A TF (TF) is a financing arrangement established with contributions from one or more external donor(s)/partners, and in some cases, from the World Bank Group, to support development-related activities. It thereby establishes a tripartite relationship between at least one donor, the World Bank as trustee of funds, and a set of (probably yet unspecified) beneficiaries.[11] All TFs have a legal basis as the donor(s) and the World Bank conclude an AA, specifying the rights and duties of the trustee in managing the donor contributions. An additional optional legal instrument at the level of trust-funded projects is the Grant Agreement (GA) between the World Bank and the recipient countries, which regulates the conditions of disbursement of activities in the partner countries. In all TFs, the World Bank as trustee provides a range of financial and administrative services. However, in some funds (i.e., IBRD/IDA TFs), the World Bank also has an implementing role. Hence, role and accountabilities vary depending on the type of TF.

The main sources of finance for TFs are the member countries of the IBRD, most of them donors to IDA for concessional development finance. Donors also include other multilateral organizations, non-governmental organizations, foundations, and other private organizations. While TFs may involve arrangements with a single donor, known as single-donor TFs (SDTFs), increasingly TF arrangements are with several donors, known as multi-donor TFs (MDTFs). In addition, IBRD contributes to the funding of some TFs from its surplus or net income. Recipients may be governmental, non-governmental, or other external entities. World Bank implementing units may receive funds from one of the World Bank's own grant financing mechanisms (e.g., the Development Grant Facility).

Based on implementation roles, the World Bank classifies TFs into two major categories: (i) Financial Intermediary Funds (FIFs), (ii) IBRD/IDA and IFC TFs.

In FIFs, the World Bank only provides financial trustee services to the international community in support of its work on issues of global importance, without having any implementing role from the outset. If routed through FIFs, donor contributions are implemented by multilateral aid institutions (MAIs), not necessarily the World Bank. If the World Bank supervises or executes activities under global programs, it receives FIF contributions into IBRD/IDA TFs or IFC TFs. For example, in the Global Environment Facility (GEF), the World Bank along with a number of UN agencies takes an operational role for individual activities under the FIF. Other important FIFs are the Global Fund to Fight Aids and Malaria (GFATM) and the Climate Investment Funds (CIFs), which together account for 80% of the growth of FIFs between FY08-12.[12]

For IBRD/IDA TFs and IFC TFs, the World Bank is the sole implementation agency. In particular, IBRD/IDA TFs are the main funding mechanism for the World Bank's country-level assistance and its own work program for knowledge services. IFC TFs on the other hand are used to pay for financial advisory services and private-sector development (see box 1).

In total, the World Bank held about USD 30 billion in trust at the end of FY13. Almost two thirds of this account for FIFs and the remainder for IBRD/IDA TFs (about USD 10 billion) and IFC TFs (about USD 800 million).[13] Annual contributions to FIFs amount to roughly USD 7 billion with USD 4 billion going to IBRD/IDA TFs. In FY13, Germany accounted for about 10% (or USD 937 million) of the overall IBRD/IDA TF portfolio and 4% (or USD 167 million) of total annual cash contributions.

[11] Bantekas (2012).

[12] World Bank (2012a): 11.

[13] World Bank (2013b): 6.

Box 1: IFC trust funds

IFC TFs are separately managed by the IFC, the private-sector investment branch of the World Bank Group. They support advisory services and scale up IFC investments. Advisory services promote private-sector development along four objectives a) access to finance, b) improving the investment climate, c) facilitating public-private partnerships, and d) promoting sustainable business. In FY12, about 80% of all IFC advisory services were financed through IFC TFs.

Funds held in trust peaked at USD 966 million in FY12, but settled at USD 787 million in FY13. Annual cash contributions to IFC TFs are at around USD 300 million. As to disbursements, the main targets of IFC TFs in FY12 included the IFC Private Enterprise Partnership for Sub-Saharan Africa, the Europe-Central Asia Advisory Program, and the IFC Private Enterprise Partnership for the Middle East and North Africa. Overall, IFC TFs financed 630 projects in 105 countries in FY12. In the past five years, program expenditures increased by 50% to about USD 200 million, of which 65% were used on IDA countries and 17% on fragile states.

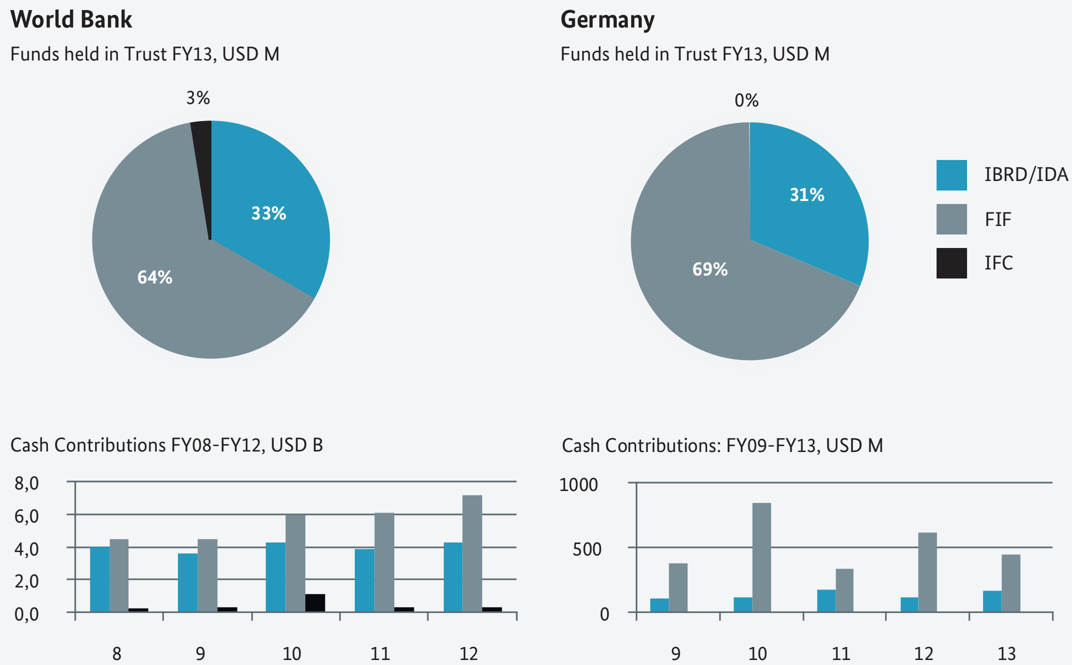
The most important sovereign donors to IFC TFs are the United Kingdom, the Netherlands, and Canada. Switzerland is also important when considering the relative importance of IFC TFs in the overall TF portfolio. Germany only contributes negligible amounts of funds to IFC TFs. It currently participates in the following three funds:

1. TF071747: G-20 Inclusive Business Innovation Recognition Challenge Trust Fund through BMZ
2. TF071968: Environmental and Social Risk Management Program (ESRM) through GIZ
3. TF071994: Underpinning Stock-taking Exercise for the Dialogue Platform on Inclusive Green Investments through BMZ

Given the small German contribution to IFC TFs, the study concentrates on IBRD/IDA TFs in the following.

Source: World Bank (2013b); World Bank (2013c).

Diagram 3: Overview: Comparison trust fund portfolio structure



Source: joyn-coop based on World Bank, (2013b), World Bank (2013c), World Bank (2012b).

Box 2: Partnerships

Partnerships refer to collaborative relationships between the World Bank and donors, recipient countries, non-governmental representatives, and other international organizations. Partnerships may have independent governance structures inside or outside the World Bank, such as a Secretariat, financial service provider, advisor, and implementation partner, and they may involve the World Bank as donor through one of its grant-making facilities. In fact, most partnerships are supported by a number of TFs under Global Partnership Programs.

Depending on whether or not the World Bank itself has an implementing role, it channels its receipts either into IBRD/IDA TFs or FIFs. Large programs are often Partnerships, as they involve various participants such as governments, civil society and a large number of donors. They usually require a three-tier governance system due to the number of participants. The Steering Committee is the decision making body on the strategic level while the Management Committee allows for technical discussions.

Diagram 4: Illustrative partnership program structure

Source: World Bank (2013e): 14.

The German portfolio of TFs handled by the World Bank is in line with the overall distribution of TFs (see diagram 3). In this regard, Germany is most similar to donors like the United States, France, and Japan. Other donors such as the UK, the Netherlands, and Australia have channeled more than 50% of their TF contributions into IBRD/IDA TFs and the smaller portion into FIFs.

Partnerships are distinct from TFs, albeit the two concepts are mutually related (see box 2). The World Bank is involved in partnerships with donors, recipient countries, non-governmental organizations, and other international organizations. Many of these partnerships are supported through TFs. While the World Bank provides financial services, manages programs, and implements activities under TFs, it sometimes also serves as advisor and donor through one of its grant facilities in partnerships.[14]

2.2 Classification of IBRD/IDA trust funds

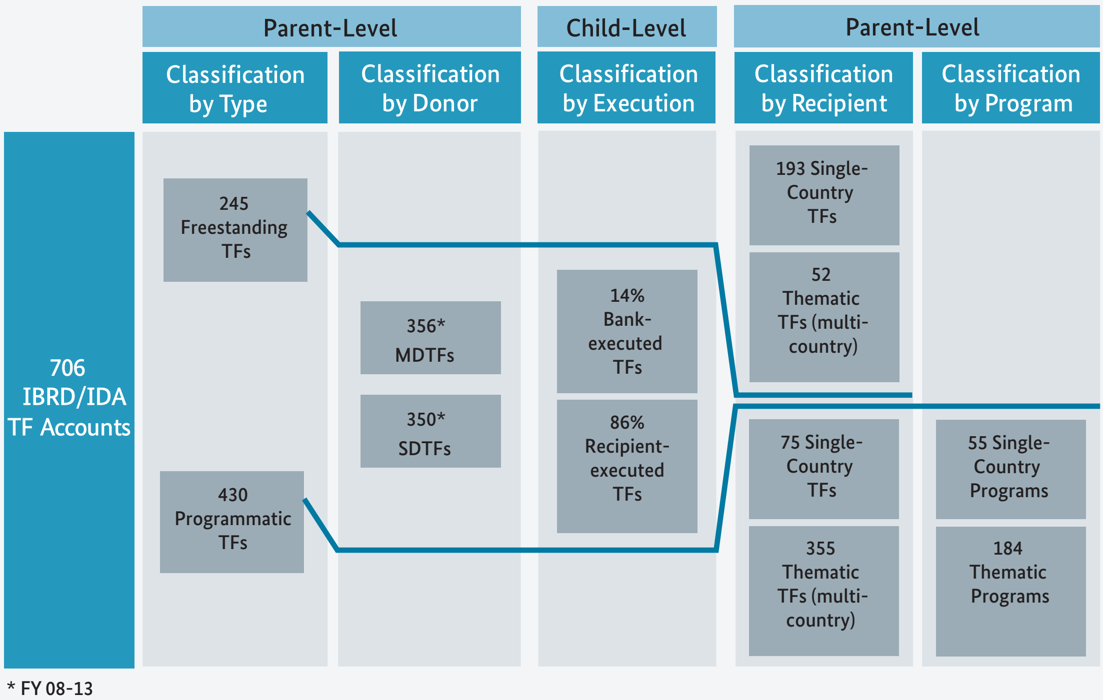
The following section focuses on IBRD/IDA TFs as these TFs are directly supervised or executed by the World Bank. IFC TFs are excluded from the analysis since Germany engages only in very few such funds (see box 1). Furthermore, IFC TFs have not been part of the World Bank's TF reform agenda.

IBRD/IDA TFs cover a broad array of purposes. The World Bank uses these funds to complement its core activities and to mobilize and direct concessional

[14] See e.g., World Bank (2013d).

resources to its strategic development priorities. In addition, the TFs serve to support partnerships with other development actors. Hence, TFs are „flexible arrangements that enable engagement in a wide array of partnerships and help [the Bank] leverage [its] assistance at all levels“.[15] "Level" refers to the type of may either co-finance or complement existing World Bank operations. Co-financing[17], which captures 60% of all TFs at the World Bank, means that the donor does not receive separate reporting on its contribution. Free-standing TFs for complementary activities mainly support technical assistance.

Diagram 5: Overall IBRD/IDA trust fund portfolio structure at the World Bank as of FY12



Source: joyn-coop based on World Bank (2013b): 6.

account where the funds are registered. Donors always contribute to a "parent level" account, with "child level" accounts for individual pr ojects being financed from the parent-level TF. TFs involve a large variety of purposes and hence take a similarly large variety of forms. According to the official categorization of the World Bank, IBRD/IDA TFs can be classified along five criteria.

First and foremost, there are **free-standing TFs** and **programmatic TFs**. Free-standing TFs involve a single-stage allocation process where commitment of funds and disbursements to projects are simultaneous.[16] Donors support specific activities jointly agreed upfront with the World Bank in the respective administration agreement. Free-standing TFs

In addition to free-standing TFs, there are programmatic TFs which disburse their funds in a two-stage process. In a first stage, donors agree on a broad thematic framework. Thereafter, a Technical Committee chaired by the World Bank allocates funds to specific projects.[18] In most programmatic TFs, a World Bank unit different from the unit that raises the funds carries out individual projects, following a call for proposals or direct allocation.

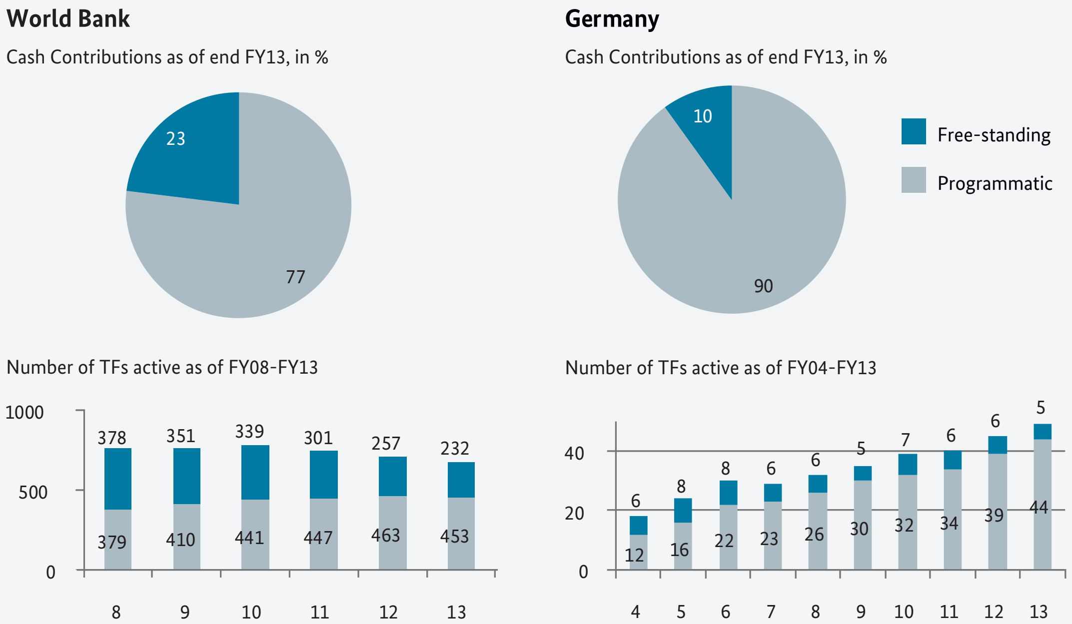
[15] World Bank (2012a): 5.

[16] World Bank (2012c): 7.

[17] Unlike in the German bilateral aid context, co-financing at the Bank implies the scaling up of an existing Bank project through TFs. This also implies that the usual project cycle, especially the need for Board approval, and the standard reporting apply to the project, regardless of its partial funding through TFs.

[18] World Bank (2012c): 8.

Diagram 6: Breakdown free-standing and programmatic trust funds



Source: joyn-coop based on World Bank (2013d).

As of FY12, the Bank managed 245 free-standing TFs (36%) and 430 programmatic TFs (64%). The share of programmatic TFs in Germany's portfolio is even higher. This coincides with the dominance of MDTFs in the German portfolio. The German share of programmatic TFs has even increased over time due to the phasing-out of some free-standing TFs and the continued growth of programmatic funds.

The second differentiation of TFs is a classification by the number of donors into **MDTFs** and **SDTFs**. MDTFs are instruments pooling contributions from multiple donors subject to the same legal agreement. While donors cannot formally earmark specific activities under MDTFs (no specification of use of funds is possible in MDTF AAs), donors may indicate disbursement preferences that the World Bank seeks to accommodate.[19] It is important to note that MDTFs are a legal instrument chosen by the founding donors. They might initially be financed by a single donor based on the expectation that additional donors join at a later point in time.

A SDTF is a funding mechanism that enables the World Bank and the donor to agree on customized provisions. SDTFs cannot be transformed into MDTFs once established.[20] Over the last years, the World Bank has gradually reduced the share of SDTFs in order to reduce fragmentation, down from 90% in FY02, 70% in FY07, to 50% in FY12.[21]

Germany almost exclusively engages in MDTFs (96%), and there is no further consolidation potential for its two SDTFs.[22] The low German share of SDTFs contrasts with other donors, especially the United Kingdom, the United States, and the European Commission, whose shares of SDTFs are as high as 40%.[23] Regarding MDTFs, Germany is foremost engaged in genuine MDTFs, as opposed to MDTFs that are established as such an instrument but only have one contributing donor.[24]

19 World Bank (2012c): 8.

20 Ibid.

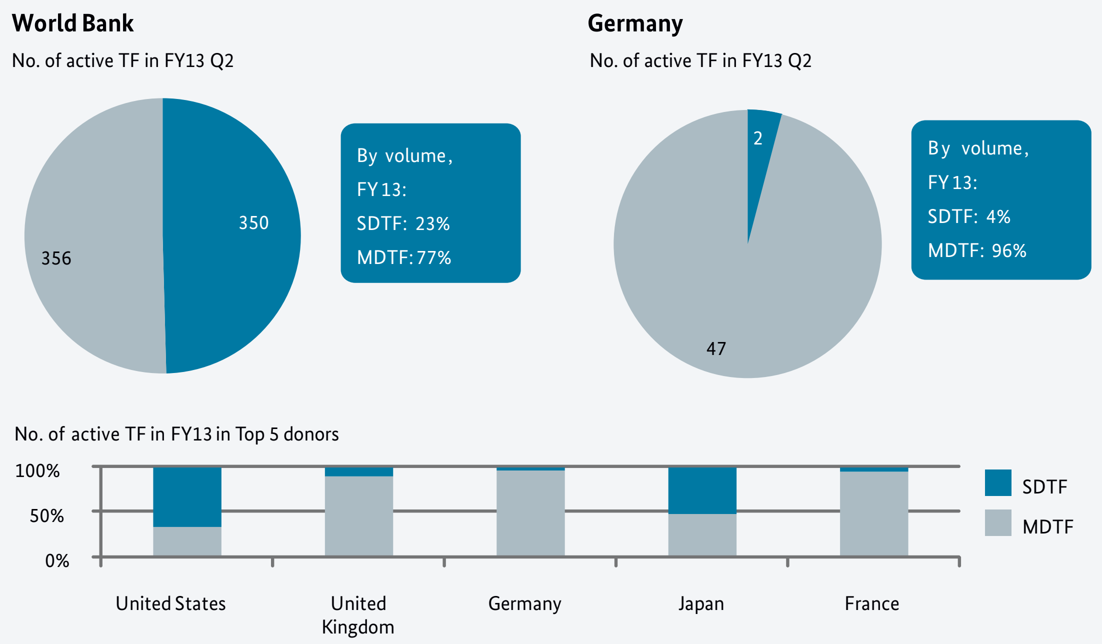
21 World Bank (2012a): 9.

22 The donor-funded staffing program cannot legally be transformed into a MDTF because it pays for German consultants in the World Bank. The other SDTF supporting ESMAP is an old TF that will terminate in FY14 (while the ESMAP MDTF continues to be operational).

23 A key explanation for the large share of SDTFs of these donors is their internal fiduciary reporting requirements, which often do not allow for MDTF contributions. This is particularly true for USAID.

24 While Germany is thus far the only donor to the TF Program-for-Results Support (PforR), all other MDTFs indeed are funded jointly with other donors.

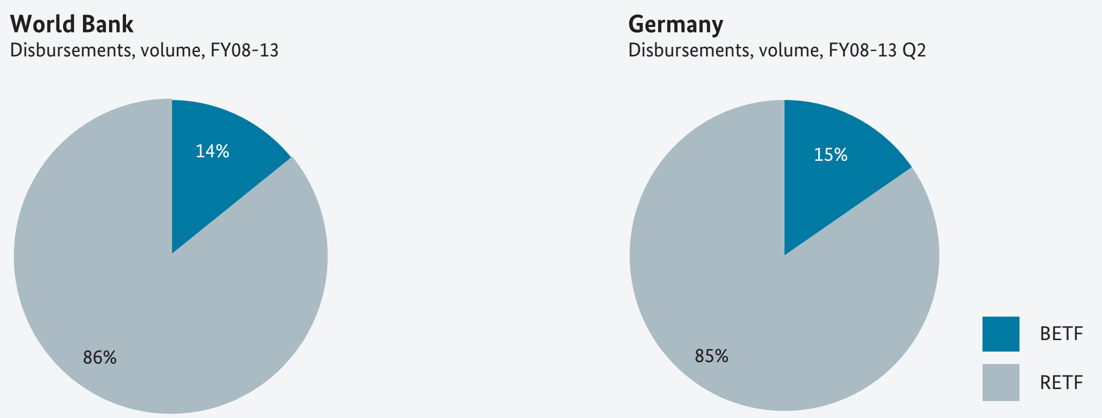
Diagram 7: Breakdown multi-donor and single-donor trust funds



Source: joyn-coop based on World Bank (2013a), World Bank (2013b).

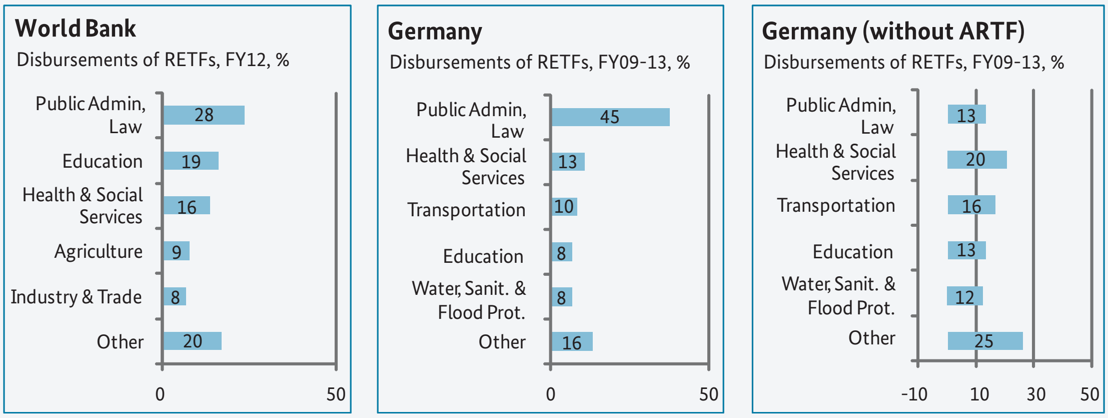
Third, there are two potential modalities of execution, namely **recipient-executed TFs (RETFs)** and **Bank-executed TFs (BETFs)**. The execution modality can only be assessed at the child-level account because parent TFs may comprise RETFs, BETFs, or mixed-modality TFs. Indicative of the type of work the World Bank conducts, the share of RETFs is about 84%, the balance accruing to BETFs. The relative distribution in the German portfolio is similar to the overall distribution. RETFs finance projects implemented by recipients but appraised and supervised by the World Bank. They finance about 10% of all projects implemented by countries. BETFs complement the World Bank's own budget to deliver knowledge services or support the World

Diagram 8: Breakdown recipient- and Bank-executed trust funds



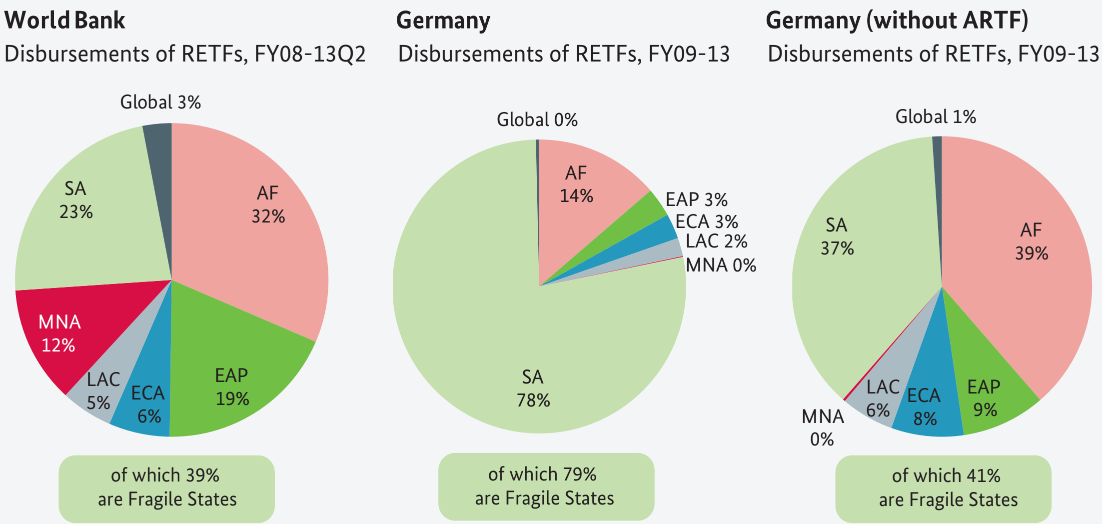
Source: joyn-coop based on World Bank (2013a), World Bank (2013b), World Bank (2013f).

Diagram 9: Comparison by the top five sectors (as defined by World Bank)[28]



Source: World Bank (2013b), World Bank (2013f).

Diagram 10: Comparison by region



AF: Africa; **EAP:** East Asia and Pacific; **ECA:** Europe and Central Asia; **LAC:** Latin America and the Caribbean; **MNA:** Middle East and North Africa; **SA:** South Asia

Source: joyn-coop based on World Bank (2013b), World Bank (2013f).

Bank's preparation and supervision of RETF-funded projects.[25] Technically, BETFs also cover expenses on TF Secretariat services. BETFs account for about 25% of the World Bank's non-lending work.[26]

40% of IBRD/IDA RETFs support only five areas, notably Afghanistan, the West Bank and Gaza, Ethiopia, Vietnam, and Indonesia. Two thirds of disbursements are made in IDA-eligible countries.[27] In FY12, country-level activities of TFs focused on sectors such as public administration and law (28%), education (19%), and health and social services (16%).

[25] World Bank (2012a): 8.

[26] RETFs and BETFs can be interpreted as two different types of TFs at the parent-level account, based on an appropriate aggregation of activity types financed through child-level accounts. For example, if more than half of all projects are Bank-executed, the overall TF is to be considered a BETF.

[27] World Bank (2012a): 9.

[28] Aid sectors are based on World Bank categories. Data using the (different) German categorization is not available.

Conversely, Germany contributed a large percentage of its RETF portfolio to TFs investing into public administration – it is important to note, however, that this is due to the Afghanistan Reconstruction TF, which accounts for more than 50% of the overall German IBRD/IDA TFs. When excluding the Afghanistan Reconstruction TF (ARTF), the sector balance is much more even. The most important trust-funded sectors include health and social services, transportation, and public administration (see diagram 9).

In terms of target regions of RETFs, the German portfolio considerably differed from the overall World Bank portfolio. In particular, Germany more strongly focused its TF assistance on fragile states (79%) compared to the overall portfolio of TFs (39%) in the past 4 years. Moreover, it had a strong focus on South Asia, again due to the ARTF. In contrast, overall disbursements at the World Bank are more evenly distributed across regions, Africa receiving the lion share.

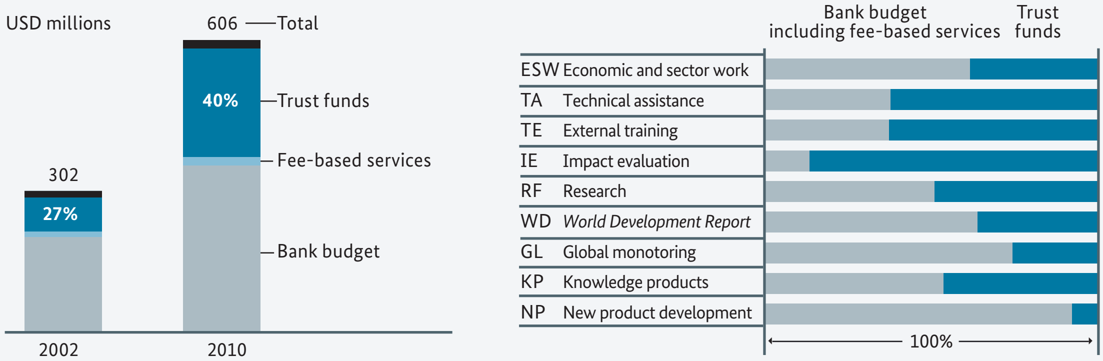
Fourth, a distinction by recipients yields **single-country TFs** and **multi-country thematic TFs**. There seems to be a strong relationship between the type of TF by disbursement account and whether or not it supports multiple countries. In fact, most free-standing TFs are single-country TFs (193 accounts out of 245 accounts), while programmatic TFs are mostly multi-country funds (355 accounts out of 430 accounts). Yet even thematic TFs are ultimately programmed at the country level, given the country-based intervention approach of the World Bank, complemented by some global knowledge services.

Fifth, TFs should be distinguished from **trust-funded programs**. In fact, there may be several TFs supporting a single program. This is often the case when donors wish to make contributions to different windows. Windows refer to subsets of activities supported through the TF. Windowing, i.e. the allocation of funds to a specific subset of activities within a TF, is not equivalent to project earmarking, which refers to the formal involvement of donors in the selection or the execution of individual projects.[29]

Diagram 11: An overview of core knowledge activities

The share of trust funds and fee-based services in total spending has increased since 2002

The share of trust funds out of total spending varies significantly across products



Source: World Bank (2013b): 32.

With regard to BETFs, the amount of funding contributing to knowledge creation has doubled between 2002 and 2010. In parallel, the share of BETFs supporting this work has increased substantially from 27% to 40%. It is particularly prominent in impact evaluation, external learning and technical assistance. Given the main purpose of BETFs to deliver knowledge services, their use is important to the World Bank's networks (see box 3).

[29] Earmarking on individual projects is not possible according to World Bank rules. However, historical practice shows that some donors running their own umbrella programs at the Bank reserve themselves the right to vet proposals, to co-decide on projects funded, and to co-edit reports. Another term (unofficially used) for windowing is "soft earmarking", indicating that the Bank maintains its operational breathing space even though donors have indicated a particular thematic preference.

Box 3: Knowledge-creating trust funds versus implementing trust funds

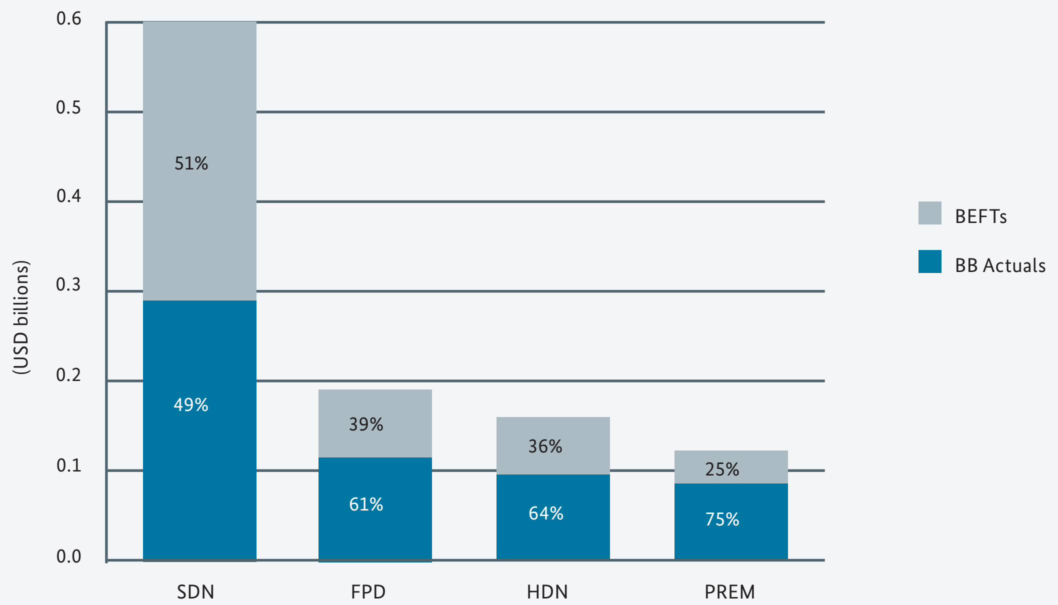
Knowledge-creating TFs and implementing TFs have different purposes and therefore represent different levels of influence for donors at the World Bank (see table 1). The distinction is not entirely congruent with the classification into RETFs versus BETFs, because knowledge-creating TFs are not primarily aimed at supporting country activities (while some BETFs do). Hence, knowledge-creating TFs are almost exclusively anchored in the networks of the World Bank, for example the climate-related research within the Social Development Network (SDN) (see diagram 12).

Table 1: Comparison of knowledge-creating trust funds and implementing trust funds

Aspects	Knowledge-creating TF	Implementing TF
Purpose of a TF	Instrument of networks, aim at knowledge creation and sharing	Instrument of regions, supporting clients at the country level through operational work
Primary use RETF/BETF	Builds mainly on BETFs	Usually builds on RETFs
Secondary use RETF / BETF	RETFs used for local knowledge creation through piloting a new approach in a project	BETFs mostly used to complement operational work with specific country knowledge (e.g. sector studies)
Significance of TFs	56% of all knowledge work is BETF financed, the rest BB	10% of operational work is RETF financed, the rest BB
Donor goals	Agenda setting in multilateral forum; benefit from networks	Support to interventions in country or regional priorities

Source: joyn-coop analysis based on interviews, World Bank (2012a).

Diagram 12: Funding to networks: Bank-executed trust funds versus World Bank budget (FY08-10 totals)



Source: IEG (2011).

The concept of windows is not officially used by the World Bank. The same applies to the distinction between **knowledge-creating TFs** and **implementing TFs**, which was a recurrent theme during interviews at the World Bank (see box 3). Although it is not an official category and therefore not in the initial typology, it is key to understand how Germany is currently positioning itself in agenda setting.

2.3 Trust fund setup and implementation process

There is no established procedure through which donors and the World Bank come to an agreement on initiating a TF. Most TFs are jointly initiated by donors and World Bank staff, based on commonly identified needs, whereas in other TFs, either the World Bank or the donor has a more pronounced interest in establishing it. World Bank staff also has to follow Bank operational rules in deciding whether or not to accept a TF.[30] Assuming that the formal criteria for accepting TFs are met, the typical setup process is as shown in diagram 13.

In an initial phase, donor(s) and the World Bank discuss the purpose of the proposed TF and the appropriate governance structure to achieve this purpose. Following informal agreement, the relevant department in the World Bank prepares a TF concept document and shares this draft with the donor(s).[31] Ultimately, the TF concept document must be signed off by either the responsible Director or the Vice President within the World Bank, depending on the parameters of the program.

The next step is the clearance process of the internal TF proposal, which involves the central units CFPTO, Legal Department Concessional Finance (LEGCF), and Controlling (CTR). The donor is not actively engaged in this phase. CFPTO reviews the proposal against the TF acceptance criteria. In particular, the TF must imply an added value to existing funding mechanisms, and the World Bank commits itself only if it has a comparative advantage, especially in the case of IBRD/IDA TFs, or if it does not expose itself to unmanageable risks, notably in the case of FIFs. Due diligence is carried out by LEGCF. CTR establishes the relevant accounts in which the World Bank receives the relevant donor contributions.

Diagram 13: Process of setting up a trust fund

Planning, Policy, Resource Mob.*	Setting up the TF	Negotiate AA*	Internal Call for proposals	Grant Agreement	Implementation
• Initial discussions b/w World Bank & donors about intended achievements of proposed TF • Bank prepares project concept document • Shares document with donors and Bank Management	• Clearance of internal TF proposal • Due diligence on all TF aspects: review against the TF clearance criteria • Approval of internal TF proposal	• Bank and donors negotiate and sign AA • Call of funds letter to donors • Donors disburse funds	• TF Coordinator (TFC) issues internal call for grant proposals • TFC reviews and awards funds to successful proposal	• RETF: Bank staff prepares project document • Signs Grant Agreement with recipient • BETF: Bank staff prepares concept note and ToR • Staff appointments & hiring of Consultants	• Disbursements of funds from child TFs

* Steps where donor is involved.

Source: joyn-coop based on World Bank (2012c).

Internal approval takes about three months, and the World Bank usually does not communicate progress to donors. Once the proposal is approved internally,

[30] Bank procedures are governed by the Bank's Operational and Bank policies. Operational Policy (OP) 14.40 refers to the procedures and rules applicable to TFs. Most importantly, OP 14.40 stipulates that the Bank does accept TFs only if they "support activities not traditionally financed under the administrative budget" and if they do not present a conflict of interest. The Bank does not accept earmarked funds (at the level of individual projects), and it also requires cost-effective arrangements (OP 14.40).

[31] For the donor, it is important to know that the concept document is finalized by World Bank only after signature of the AA and might considerably change.

the World Bank and each donor sign an Administration Agreement (AA). Following agreement on the AA, the Bank must send a written letter to call the funds from (the) donor(s), according to the tranches stipulated in the relevant AA.[32]

Following the establishment of the TF and the receipt of donor contributions, different TF types trigger different procedures regarding the World Bank-internal allocation of funds to projects. In free-standing TFs, funds are directly allocated to pre-specified project activities, without the need to review project proposals through a Technical Committee. In programmatic TFs, the TF Secretariat typically issues a call for proposals under which prospective fund users can apply for financial support to their activities. In other cases, donors and the World Bank have agreed on fixed shares of funding being allocated to the regional Vice Presidential Units (VPUs). The regional VPUs then make the allocation to specific projects based on their own allocation mechanism, typically calls for proposals.

The internal child TF level project preparation and implementation process is similar for all TFs. Task team leaders must seek approval of their projects from senior management. Depending on the risk rating and the size of the grant, trust-funded projects must be signed off at least by the relevant Director, in some cases by the Vice President. In particular, trust-funded projects with a size above USD 5 million must go through the Vice President, whereas smaller projects are to be signed off by the Director. In exceptional cases, for example when the World Bank itself is a donor to a project through its grant-making facilities, or when the project is partly financed by core funds, the project must pass the Executive Board.

There are only slight differences in the project preparation cycle depending on execution modality. For RETFs, task team leaders seeking funding from TFs prepare a project document that sets out the economic justification, the Results Framework (RF), social and environmental aspects, and fiduciary and implementation arrangements. On this basis, as in the case of core-funded projects, a Grant Agreement is signed with the recipient outlining conditions for disbursement and use of the funds.[33]

For BETFs, the task team leader prepares an activity concept note, along with terms of reference in cases where staff and consultants are hired to do the work under trust-funded operations. All staff appointments are conducted according to general human resource policies of the World Bank. Contracts for consultants are handled by the General Services Department of the World Bank and follow its internal procurement rules. A TTL supervises all activities implemented by the recipient and those of consultants under BETFs. World Bank policies fully apply in both cases.

2.4 Trust fund governance arrangements

The following section addresses the range of governance arrangements that donors can negotiate with the World Bank when establishing a TF. The agreement is then formalized in an AA. Based on a review of World Bank-internal documents and an analysis of German AAs, the aim is to identify the main parameters to be negotiated between the donor(s) and the World Bank along with the relevant leverage to negotiate individual solutions.

The AA is the key legal document governing the relationship between the donor and the World Bank in managing a TF. The standard AA consists of a main part as well as three annexes on (i) program objectives, related activities, and expected results; (ii) standard provisions governing the management of entrusted funds; and (iii) the set of decision-making bodies. According to the World Bank, only Annexes 1 and 3 are negotiable, whereas standard provisions apply in Annex 2. However, our analysis shows that there are nuances in the application of those standard provisions, which indicates that there may be bargaining space, should the circumstances require so (see the AA analysis in annex 2). In the following, we proceed with the key choices related to TF governance structures. For a complete overview of bargaining options along all annexes please refer to table 2 at the end of the chapter.

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32 The Bank may even receive donor contributions when the TF is not yet legally established in the accounts of the Bank. Technically, this is done by a Donor Balance Account, from which resources may be transferred to TFs at a later point in time. This is hence a solution to respond to disbursement pressures at the end of the year.

33 Funds, which are provided from a TF to a recipient or to the Bank to implement specific activities are normally provided as grants, i.e. without repayment obligations. If the recipient is not the Bank itself, the recipient agrees to implement the grant activities through the signing of a Grant Agreement. A „donor‘s contribution" consists of a disbursable grant amount and a cost recovery fee applied by the Bank for TF administration.

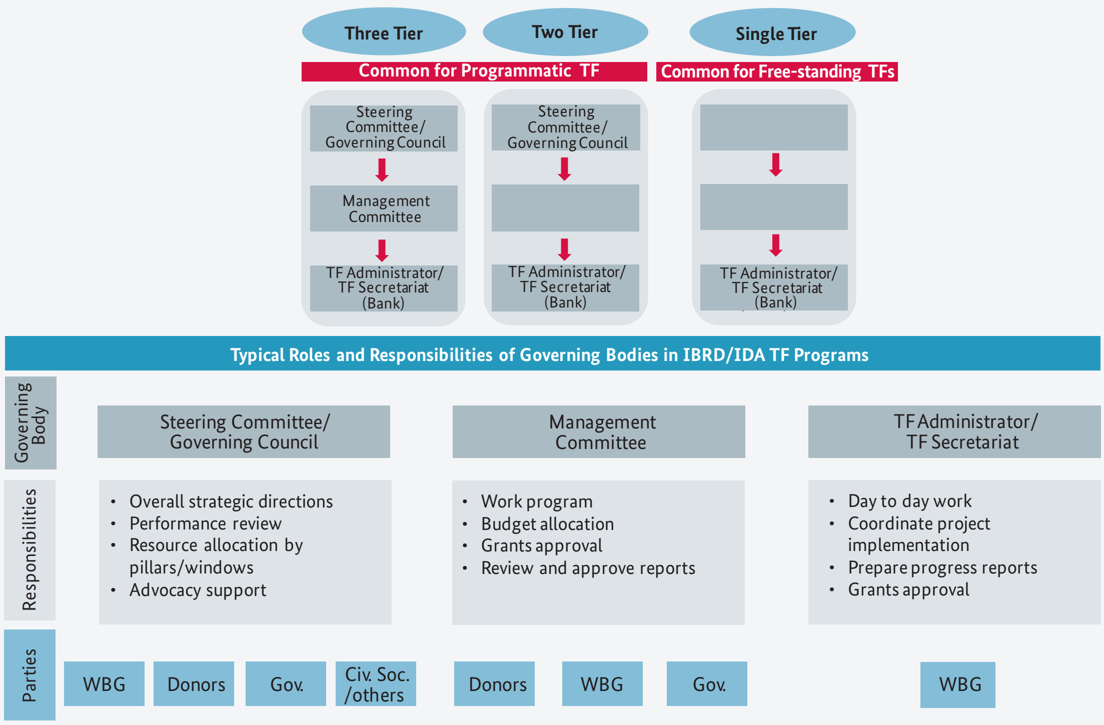
2.4.1 The institutional structure of a trust fund

First and foremost, the donor(s) and the World Bank agree on the set of institutional bodies governing the TF, which is included in Annex 3 of the AA. The institutional structure of a TF largely follows its purpose. For example, a co-financing arrangement with a single donor does not need a full-fledged governance structure but only requires an accountability mechanism for financial reporting. In contrast, a partnership facility with several implementing agencies requires a more sophisticated governance structure. What is true for all TFs is that they have at least some degree of external governance (i.e., the donor), which may pose a challenge to World Bank in terms of consistent strategic directions. This is because TFs shift the locus of decision-making outside the Executive Board to rather independent Steering Committees, which may have their own agenda and their own institutional rules. Notably, partnership facilities, FIFs, and large programmatic TFs are most detached from the World Bank and its formal decision-making process. Three major categories of governance structures can be distinguished. Within these categories up to 70 different combinations of governance bodies can however be found in practice.

The single-tier governance structure is typical of free-standing TFs. Those TFs in most cases only have an administrative team that manages the program, coordinates project implementation, approves grants, and ensures adequate reporting to the donor(s). Since the donors bandwagon on an existing World Bank project, no Steering Committee is needed. Examples of the single-tier model include the co-financing TFs, which currently present 42% of the German RETF disbursements (or roughly 35% of the portfolio's overall disbursements).

The two-tier governance structure occurs in programmatic TFs. In addition to the administrative unit, those TFs have a governing body. It consists of donor representatives and defines overall objectives, conducts performance reviews, and allocates resources into the windows of the financing facility. The governing body typically delegates some of its tasks to a Technical Committee, which previews project proposals on the

Diagram 14: Observed governance structures in IBRD/IDA trust fund programs



Source: joyn-coop based on World Bank (2014): 28-29.

basis of program criteria and gives recommendations on fundable projects. Technical committees usually consist of World Bank staff from relevant sectors, but in some cases donors have a say through their own experts participate in the review committee.[34]

The three-tier model adds a management committee to the two-tier structure. This may be necessary in country-based programs that have a large number of participating donors that want to participate in the strategic level discussions, in Global Partnerships or when there are several implementing agencies - because the allocation of funds to specific projects should be based on the comparative advantage of each implementing agency that must then mutually coordinate their activities. A key example is the ARTF. It is a partnership facility, whose activities on post-conflict reconstruction are carried out by one of the multilateral development banks or local implementing agencies. The management committee, chaired by the World Bank, coordinates the work of the implementing agencies, prepares the work program and budget allocation, including the approval of grants. It also prepares the content for Steering Committee or consultative group meetings.

In summary, governance structures largely depend on the program purpose and to a lesser degree on negotiation. Germany mostly contributes to two-tier TFs, followed by single-tier TFs, and three-tier TFs. This reflects the German emphasis on MDTFs and comprehensive country-level programs, both of which tend to have at least two tiers rather than a single tier.[35]

2.4.2 Specific governance clauses as set out in the Administrative Agreements

Having agreed on the institutional structure of a TF, the donor(s) and the World Bank negotiate a number of specific conditions governing the TF. In the following, we present the principal bargaining options on each of those specific conditions, provided that they can indeed be negotiated. To assess the degree of flexibility on the part of the World Bank, we consider World Bank operational rules and the provisions in the standard AA, as well as the variability of negotiated clauses in the available German AAs. Our analysis covered the following criteria:

- contract duration;
- contribution schedule;
- types of eligible expenditure;
- fee structure;
- reporting, audit, and evaluation; and
- cancellation.

Contract duration and contribution schedule are specified in the main part of the AA. In terms of contract duration, there is no pre-defined World Bank standard. By now, all new TFs at the World Bank should have an end date. This is important because failure to specify what happens when the program comes to an end may lead to fragmentation, known as the problem of "dormant funds" (see Section 5.2).[36] German AAs last about four years on average, ranging from one year to seven years. In recent years, contract durations have become shorter.

Contract schedule: The basic choice that bargaining partners face is whether the donor contributes its funds at once or in several tranches. Among the German stakeholders, BMZ makes most frequent use of tranching.[37] In general, donors must be aware that the World Bank is obliged to make its own disbursements to grant recipients on the actual cash basis of commitments (BOC), which implies that it cannot accumulate liabilities against future contributions as this would violate its fiduciary duties of care. This might lead to delays in implementation.

Eligible expenditure: This is the single most important criterion in Annex 1 of the standard AA. It refers to the types of costs that the World Bank is able

[34] For instance, this is the case in the Governance Partnership Facility (GPF), where projects are reviewed jointly by World Bank staff and representatives from the United Kingdom and the Netherlands. In some corporate TFs, such as the Japanese Social Development Fund (JSDF) and the Korea TF for Economic and Peace-building Transitions (KST), donor officials must vet proposals before they can be supported through the TF. Those cases do not reflect standard practice of donor participation at the World Bank. They may reflect the desire of the Bank to not alienate an important donor, to increase the attractiveness of TFs for new donors, or where the participation of donor officials in core Bank tasks would really add value due to their specific expertise.

[35] This conclusion is based on a legal appraisal of the AAs. In practice, some of the TFs actually have a more complex governance structure that may also evolve over time, e.g. GPE, or HDSP.

[36] What matters to the donor is the end disbursement date. After this date, no accounting entries can be posted into the TF account and all financial closure procedures at the grant level and the trustee level are completed. Only after the end disbursement date is the Bank able to ultimately eliminate the account from its books. (World Bank 2012c: 56).

[37] This is most likely because the BMZ TF funding source „Funds in Trust" (FiT), see chapter 3.1, is usually allocated over three years.

to charge against the TF. The World Bank can only disburse funds for activities that represent eligible expenses. Eligible cost categories are specified in the AA, Annex 1. Recipient-executed funds have eligible expenses mainly on goods and services. Bank-executed funds mainly cover staff costs, but there is large potential for negotiation. Only in the case of BETFs, the World Bank is liable to donors in that it must refund donors if actual expenses were not permissible. Based on the analysis of German AAs, it seems that regular World Bank staff can always charge its direct costs (African Sustainable Development (AFRSD) is an exception as it does not allow for any staff costs to be levied). This also holds for direct costs for consultants (except for PSIA). Note that while donors determine the types of eligible expenditure, the World Bank always operates within its own operational rules regarding procurement and staffing (as stated in Annex 2 of the AA). In particular, the World Bank does not allow earmarking on the nationality of its consultants.

Fees belong to the most important governance clause from the perspective of the World Bank in Annex 2, which contains the "standard provisions". According to its own operational policy OP 14.40, the World Bank only accepts TFs if they recover their full costs. In the early days, the World Bank did not charge fees but used the interest earned to pay for its management services; later, the World Bank calculated fees according to the partial cost approach, which only takes into account the direct costs from providing donors the option to contribute non-core funds. Nowadays, given the significance of TFs in the overall budget of the World Bank, a full cost approach is warranted that charges fees for the services of central units as well (e.g., LEGCF, CTR, and CFR). The World Bank distinguishes between a) standardized fees, b) customized fees, and c) zero fees that only apply for debt service TFs and Carbon funds. The cost recovery principle is based on the size and type of the TF.

a) The standard fee (5% of contributions and one-time USD 35,000 set up fee) is applicable to TFs established as (i) co-financing of World Bank's IDA/IBRD operations below or equal to USD 30 million and ii) Bank-executed TFs regardless of size.

b) The customized fee applies to all other TFs, which include i) co-financing greater than USD 30 million, (ii) combination of Bank- and recipient-executed TFs (hybrids), and (iii) Financial Intermediary Funds, regardless of size. Under this arrangement a fixed fee of up to 2% (based on size) is charged to defray the cost of administration, plus the estimated cost for the World Bank unit implementing the activities. These costs are charged as they are incurred up to the maximum amount or percentage specified in the administration agreement.[38]

In practice, German AAs witness some heterogeneity in terms of fee structures, although most variation is due to TF size and the types of activities. Administrative fees vary from 0.2% up to 5%. The unweighted administrative fee average is 2.66%. If the administrative fee is small as a percentage, chargeable costs are higher, essentially to ensure that the TF covers its actual costs. In terms of costs, some TFs allow the World Bank to charge any amount up to the actually incurred costs, while others have an absolute ceiling on those costs, notably the older TFs.[39] The newer TFs cover costs up to a percentage ceiling that varies between 1.5% and 10.7%.

Reporting: All projects at the World Bank are subject to substantive reporting, which is publicly accessible.[40] TFs add an additional layer of reporting in that the World Bank provides donors with aggregate reports on the overall achievements of the trust-funded program at parent level (unless it is a co-financing TF where there only is the project report). By Annex 2 default, the TF Secretariat produces an annual report along with semi-annual progress reports, both of which are publicly available. To compile those reports, the TF Secretariat must have information on the success of individual projects supported through the TF. Therefore, task team leaders are obliged to prepare Implementation Status Reports (ISRs) and Implementation Completion Reports (ICRs) in the case of RETFs as well as GRMs in the case of BETFs.[41] For each TF

[38] World Bank (2012c): 18. According to our interviews with the legal department, the Bank is currently working on a further simplification of fees for cost recovery, which is planned to be in effect by July 2014.

[39] E.g., USD 35,000 in the MDTF for the Second Emergency Demobilization and Reintegration Project in Rwanda, or USD 1.5 million in the MDTF for Transitional Demobilization and Reintegration Program.

[40] For recipient-executed activities, task team leaders prepare a progress report (ISR) and a final report (ICR). Due every six months (ISRs) and at the end of the project (ICRs), those reports are based on core quantitative indicators. In contrast, results on Bank-executed activities are reported in a rather narrative fashion through the Grant Reporting and Monitoring (GRM). Like ISR and ICR, though, a GRM must be approved by senior management.

[41] Progress reports under BETFs are optional unless required by the TF manager. For free-standing BETFs housed within a VPU, the TTL prepares those reports only if required by the VPU (World Bank 2012c: 42).

with total contribution above USD 1 million, the TF manager also completes and submits an Implementation Completion Memorandum (ICM) after closure of the TF.[42] According to TF managers, it may be difficult to consolidate the results from individual projects into a single report, given different sets of indicators used and different types of activities to be assessed. Results Frameworks (RF) associate individual TF objectives to measureable indicators. The TF Handbook states that TFs "should include a Results Framework", which "outlines activities, outputs and outcomes, indicators to measure these dimensions, and intended plans and resources to monitor and evaluate these expected results".[43] Most German TFs do not have a RF fixed in the AA.[44] However, there are two German TFs[45] that include specific measures on agreed objectives both being relatively new TFs.

Financial reports and audits: In addition to substantial reporting, the World Bank provides donors with the opportunity to track the financial status of their TFs. The minimum standard on financial reporting consists of two elements. First, donors have secure access to financial information in the holding currency of the TFs through the Client Connection database. Second, up to six months after the end of each fiscal year, World Bank management provides an assertion together with an external audit attestation that it has followed adequate fiduciary standards in financial reporting for TFs as a whole. The World Bank covers the costs of the single audit. Some TFs have stricter terms on financial reporting to donors, for example the Liberia Reconstruction TF (LRTF) that provides quarterly financial reports. In addition to the single audit, AAs provide for the possibility of a separate audit of an individual TF. In this case, the World Bank and donor must agree on the scope and terms of reference of such audit. The costs of a separate audit must be borne by the requesting donor.

Evaluation: According to the TF Handbook, TTLs are responsible to supervise projects and to monitor and evaluate the corresponding results. Notwithstanding internal supervision, donors can call for external evaluations at their own costs. This is stipulated in a standard clause in all AAs. In case of a MDTF, donors must agree on whether or not evaluations should be paid from TF resources and whether or not individual donors have the right to impose individual evaluations.[46]

Cancellation is legally possible for both sides of the AA. Any party may cancel the AA upon three months prior to written notification. When this clause is invoked, funds uncommitted by the World Bank are returned to the donor according to its pro-rata share. As discussed later (see chapter 5), the donor also has the option to withdraw from the TF and transfer the balance into IDA.

In summary, the bargaining potential varies across the individual governance clauses, depending on whether or not there already are detailed operational rules on the part of the World Bank. Based on our analysis of those operational procedures, as well as our analysis of German AAs, we have found that there seems to be little room for negotiation in areas such as staffing and procurement, reporting, and cancellation. In the following, we present the principal bargaining options on each of those specific conditions (see also annex 2).

42 World Bank (2012c): 39-41.

43 World Bank (2012c): 41.

44 It is only recently that Results Frameworks (RFs) have become important, given higher pressure from donors. It is rarely included into AAs due to issues including (i) the difficulty of measuring impacts during life of a TF, and (ii) the need to amend the AA, should an indicator change in the course of TF life. Especially for programmatic TFs, it is difficult to establish a RF at the time of TF initiation, when activities under the TF are yet to be defined and funds to be allocated. However, RFs often exist outside the AA, e.g. for the Bangladesh Health Sector Reform TF, which has a very detailed RF. For programs they are usually included in annual reports, as is the case of ESMAP.

45 These are the Umbrella Facility for Gender Equality and the MDTF for Poverty and Social Impact Analysis.

46 World Bank (2012c).

Table 2: Bargaining option in Administrative Agreements

Part of AA	Negotiable	Options
Main body		
Establishes identity of the parties to the contract, their intent to establish a TF, and the contribution amount	Yes	Mutual agreement, typically no additional AA negotiation required, LEGAL writes the text
Contribution schedule	Yes*	At once or in several tranches
Annex 1: TF Description		
Objectives and activities	Yes*	Depending on TF purpose; some AAs include success criteria
Eligible expenditures	Yes	They are closely related to the types of activities financed and governed by World Bank procurement rules: RETF: mainly goods and services; BETFs: mainly staff cost - direct and indirect cost options – see annex 2
Taxes	No	Standard clause
Program criteria	Yes	Conditional contributions (e.g. matching by World Bank)
Annex 2: Standard provisions		
Administration of the contri-butions	No	Standard clause
Management of the contributions	No	Standard clause
Trust fund fee and cost	No	The cost recovery principle is based on the size and type of the TF; donor can check plausibility of calculation
Accounting and financial reporting	No	Standard clause
Progress reporting	Yes	Choose annual, semi-annual, or quarterly report; also informal agreement on specific aspects possible (in or outside regular reports)
Disbursement, cancellation, refund	Yes	Standard clause except disbursement end date: There is no pre-defined standard; but all contracts from now have a defined end-date
Disclosure, Dispute resolution	No	Standard clause
Evaluation	No	Standard clause
Annex 3: Governance		
Governance bodies	Yes*	Governance set-ups, involving up to three tiers; frequency and purpose of interaction of each governance body (e.g. Steering Committee, Management Committee etc.)** Some additional options found: external team of experts; technical and financial advisory committees; representation of recipient governments and civil society.

* Key negotiation areas.
** In some rare cases it is also up for negotiation which donors may participate in the governance bodies. For example, in the TF Global Knowledge Program on Migration and Development only the largest donor may participate in the advisory council that gives overall strategic directions.

Source: joyn-coop based on interviews and analysis of Standard A and German AAs.

The bargaining options presented above apply in the case of a new TF being set up and negotiated. When joining an existing MDTF, each donor entering the TF has to sign the exact initial AA that was drafted when the TF was set up.

2.5 The trust fund reform process

Facilitated by a lenient internal control environment in the World Bank, the number of TFs grew tremendously in the early 2000s. This created concerns about manageability in the World Bank.[47] Therefore, World Bank senior management started off an ambitious reform process in the mid-2000s. As a long-term objective, it aims at making TFs a financing instrument that follows the same operational rules as core funding. An important milestone in this process had been the 2007 TF Management Framework, along with its updates in 2010 and 2013 that focused on different areas of the reform process.[48]

The reform agenda focuses on four pillars, each of them being addressed over different time periods. These are (i) strategic alignment with the World Bank's portfolio, (ii) integration of TFs in business planning and budgeting process, (iii) cost recovery and efficiency, and (iv) oversight. The last pillar was added based on recommendations by the World Bank's Independent Evaluation Group. Progress to date on those four pillars has been uneven, but the World Bank considers itself on track and seeks to move forward with its agenda.

First, alignment of TFs with the core agenda of the World Bank is the most recent reform area. A number of measures contributed to greater alignment of TFs with core World Bank work. Since 2008, trust-funded activities have been integrated into country assistance strategies (CASs), thereby ensuring alignment with country priorities and more comprehensive planning by country offices and regional Vice Presidential Units (VPU).[49] To overcome the ad-hoc fashion by which TFs were raised in the past, the World Bank more recently engaged on strategic alignment with donors and introduced Umbrella Facilities in 2011.[50] In the future, the World Bank will base its decision whether to accept TFs on the three criteria of relevance, alignment, and comparative advantage.[51]

Second, the World Bank integrated TFs into its standard business processes. In the 1990s, task team leaders had considerable autonomy to agree with individual donors on TFs to support their non-core activities, and those TFs had been off the radar of many VPUs. Since the mid-2000s, TF require approval by the relevant director, or, in some cases, the vice president. By now, trust-funded projects also follow the same internal review process (except Board approval) and a reporting standard as least as high as core-funded projects. At the same time, the World Bank has sought to avoid unwarrantedly high transaction costs through the introduction of a small-grant procedure[52] for RETFs in FY13, which covers about 70% of all RETFs. In the future, the World Bank will further develop its quarterly VPU fundraising projection, which enhances vice-presidential control over TFs.[53]

Third, the World Bank has tightened cost recovery. On the one hand, the World Bank streamlines its own operational procedures to increase efficiency, as indicated by the small-grants procedure and the integration of separate reporting and monitoring of TFs that will be completed by FY14. On the other hand, it further standardizes its policies vis-à-vis donors. In particular, fee structures at least for BETFs are relatively standardized: a 5% fee that is shared between the managing unit (60%) and central units (40%). In FY13, the World Bank revised its fees for fiduciary services for FIFs based on full cost recovery. The Bank also expects its cost recovery to improve due to the higher minimum size for new TFs of USD 2 million, effective July 1, 2013. Senior management further plans to raise the overall minimum size of MDTFs to USD 5 million. Most recently, the World Bank has also developed a life-cycle approach that states clear exit conditions. Standardized closing procedures will be further developed to address the issue of "dormant funds", which currently are at about USD 300 million and generate significant administrative costs.[54]

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47 There also had been a corruption issue in a TF in the early 2000s, which caused suspension of all TF contributions by some donors. This incident, which undermined donor trust in the Bank, paved the way for tighter fiduciary controls that are at least equally stringent as the rules and procedures governing the Bank's own resources.

48 IEG (2011): xv.

49 World Bank (2013b): 10.

50 Umbrella Facilities are (mainly) large thematic TFs based on a World Bank sector strategy, without possibilities for donor earmarking. They have been initially suggested by IEG as a means to curb the proliferation of funds and to align them with Bank objectives.

51 World Bank (2013b): 10.

52 This is a simplified procedure for grants below USD 500.000 that requires only the review by the World Bank sector manager before the grant is cleared for implementation.

53 World Bank (2013b): 2, 10, 12, 17.

54 World Bank (2013b): 2, 16, 18, 19. 20.

Fourth, albeit added only in 2007, oversight is the most dynamic area of reform. In late 2011, two chapters on TFs were added to the Quarterly Business and Risk Review Report (QBRR) to the Board. Furthermore, better oversight has been made possible through better access to TF financial data, both internally through electronic accounting since the early 2000s, and publicly, through the *AidFlows (www.aidflows.org)* and *fiftrustee (fiftrustee.worldbank.org)* portals. According to senior management, high-level oversight will increase awareness of fragmentation issues and further contribute to a stricter control environment.[55]

The ongoing reform process at the World Bank sets an important background condition for the evolving German engagement strategy on TFs (see chapter 5). This is because the reform has two distinct sets of effects. On the one hand, the governability of TFs by World Bank staff tends to have a direct impact on core-funded operations. Moreover, the attractiveness of TFs in general may have an impact on the evolution of core funding. Hence, the repercussions of TFs on core funding are relevant to donors in their capacity as shareholders of the World Bank. On the other hand, TF reforms directly affect OECD/DAC countries in their capacity as donors to raise TFs with the World Bank.

This donor-shareholder duality applies to every sovereign member country. We analyzed the TF reform positions of four countries, namely the United Kingdom, the Netherlands, Switzerland, and Sweden (see annex 3).[56] In general, those donors officially support the reform process at the World Bank in their capacity as shareholders and at the same time belong to its largest TF donors with relatively nuanced TF reform positions depending on their dominant pattern of engagement. All four donors follow to some extent the corporate World Bank perspective on TFs, welcoming World Bank efforts on better oversight, business process integration, and cost recovery. In principle, donors also encourage the World Bank to become more selective, as a means to increase its focus on results (e.g., DFID), or to maintain its flexibility (e.g., Switzerland). However, according to our interviews some donors[57] doubt whether Umbrella Facilities (UFs) are an appropriate means to this end.

UFs were suggested by IEG in its 2011 report as a radical solution to the proliferation of TFs at the World Bank. IEG recommended that the World Bank and the donors should agree on multi-donor multi-country Umbrellas supported by a World Bank strategy, while "phas[ing] out the other multiple-recipient-country funds [...]". IEG advocated UFs as a means to address "operational inefficiency, inadequate accountability for results, and lack of objective and transparent allocation criteria".[58]

However, it has become clear that this rather radical solution would be difficult to implement, given the skepticism among most World Bank operational units as well as donor countries. World Bank management therefore advocates Umbrella Principles as a compromise. Those principles follow the spirit of UFs while maintaining flexibility by allowing the co-existence of TFs even if they support similar themes. Umbrella Principles thereby respect the existing architecture of TFs at the World Bank, while standardizing governance in those TFs to the extent possible (see box 4).

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[55] Ibid.: 2, 20.

[56] These countries represent varying TF policies and therefore seem particularly suitable for a comparison with Germany.

[57] For example UK and Sweden.

[58] IEG (2011): xx.

Box 4: The Umbrella Principles

Umbrella Principles (UPs) have evolved out of the discussions on the Umbrella Facilities (UFs) as a more flexible approach to apply principles as opposed to one predefined concept to TFs. Based on our interviews, we could identify seven UPs:

- **Contributing to MDTFs rather than SDTFs:** Under MDTFs as standard legal instrument, all donors are treated equally, thus, each donor signs up to the same AA with the World Bank;
- **Supporting core activities:** TFs should align with and complement the existing IBRD/IDA work program as endorsed by the relevant sector boards (i.e., the management committees);
- **Harmonized replenishment:** annual fundraising activities, to replace ad-hoc contributions from donors or fundraising by individual World Bank project managers;
- **Light Governance:** TFs should have the most cost-effective governance structure and rely on World Bank mechanisms to avoid institutional duplication;
- **Block grants:** Given the high transaction costs under the competitive call-for-proposals mechanism, block grants are the preferred mode of allocating funds to individual projects. This puts the regional VPUs in the driver seat to decide on how to best allocate the available resources. Block grants also preclude the possibility for individual donors to earmark specific projects;
- **Unified results reporting:** All donors obtain a single report at the parent-TF level according to the TF Results Framework. With pooled funds, it is not possible to attribute specific results to individual donor contributions.

Source: joyn-coop based on interviews with CFPTO and IEG.

3 An analysis of the German engagement in World Bank trust funds

This chapter presents an in-depth analysis of the German TF portfolio and looks at the different development institutions (BMZ, GIZ and KfW) with their key priorities and internal processes. Moreover, based on eight case studies, this chapter describes the experience of these institutions with setting up and managing TFs and provides also the related World Bank perspective. Finally, observations and key aspects for successful TF management are presented.

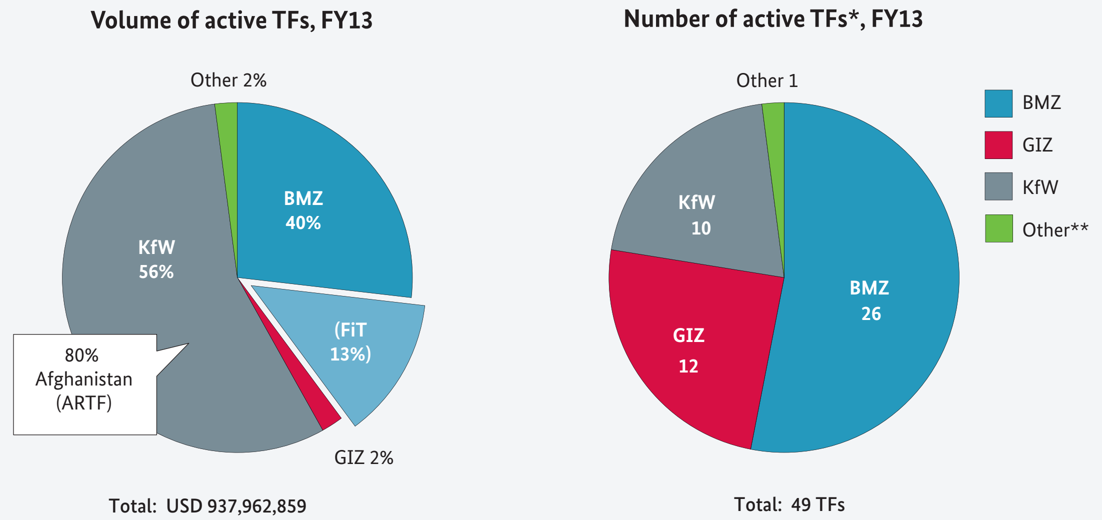
3.1 Trust fund portfolios of the German key development institutions

The German TF portfolio is shared between several institutions. By far the largest share is held by BMZ and its implementing agencies GIZ and KfW. A minor share is or was held by other ministries such as the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) or the Federal Ministry of Food, Agriculture and Consumer Protection (BMELV). In addition, the Federal Foreign Office (FFO) provides TF funding via KfW. The following graph shows the allocation of TFs to the different German institutions. Annex 4 provides a list of the TF contributions per institution.

In the following, we focus on BMZ, GIZ, and KfW, which hold the vast majority of the TF contributions. While BMZ holds roughly half of all TFs, KfW has the most important share in terms of contribution volume. The diagram on the left also shows the volume of TFs funded via the FiT, which is a specific funding line at the level of BMZ. This will be further explained in chapter 3.2. For all three institutions, number and volume of TFs have increased significantly over the last ten years (see diagram below) – in line with the overall increase of TFs at the World Bank.

As diagram 17 below shows, 70% of TFs have contributions below USD 5 million and 40% even below USD 2 million (most of them by GIZ). In contrast to this, only 12% of TFs in the overall World Bank portfolio have contributions lower than USD 2 million and only 33% have contributions lower than USD 5 million.[59]

Diagram 15: Active IBRD/IDA trust funds by institution

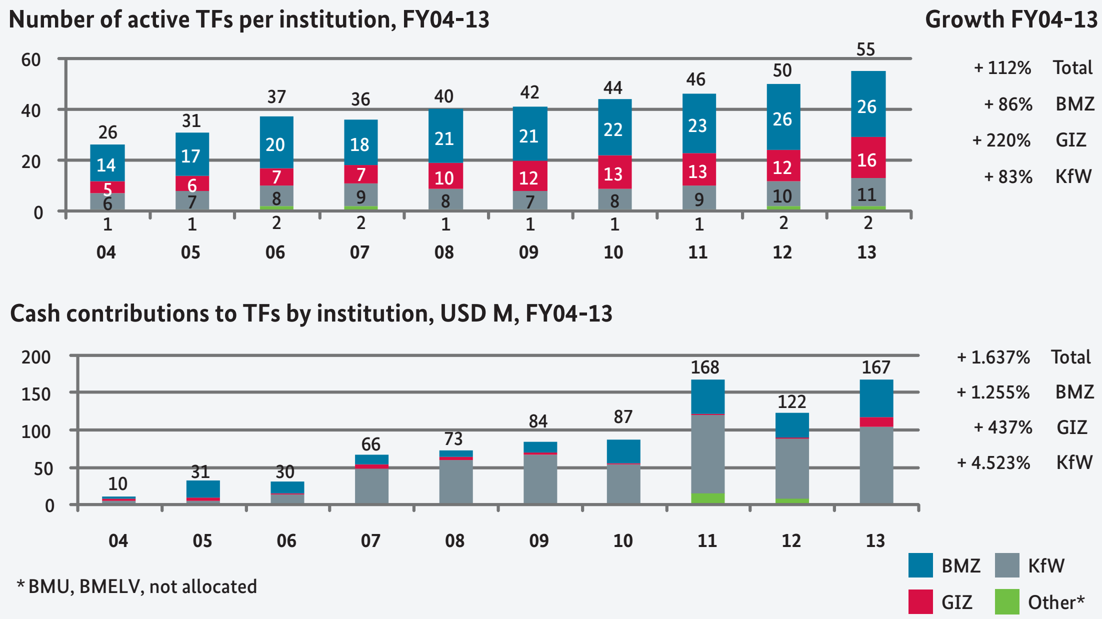


* There are 49 TFs with German contributions and 55 active TF contributions. Six TFs are hence held by two German institutions. Here, all of these six TFs are allocated to BMZ.
** BMU

Source: joyn-coop based on World Bank (2013a).

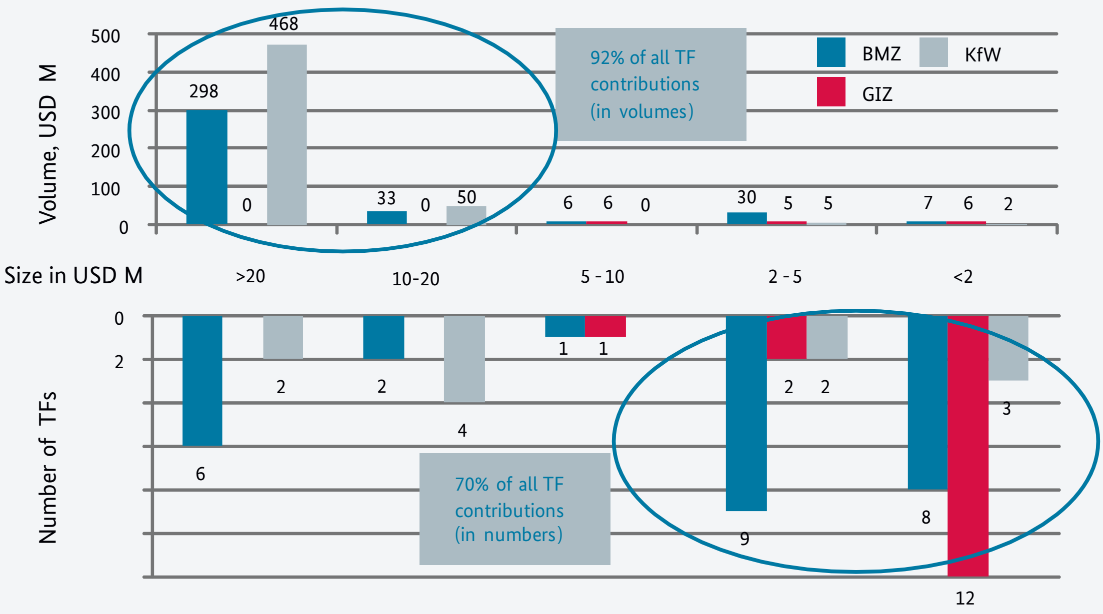
[59] World Bank (2013b): 9.

Diagram 16: Development over time: German contributions to IBRD/IDA trust funds



Source: joyn-coop based on World Bank (2013a).

Diagram 17: Volume and number of trust funds by size of contribution, FY13



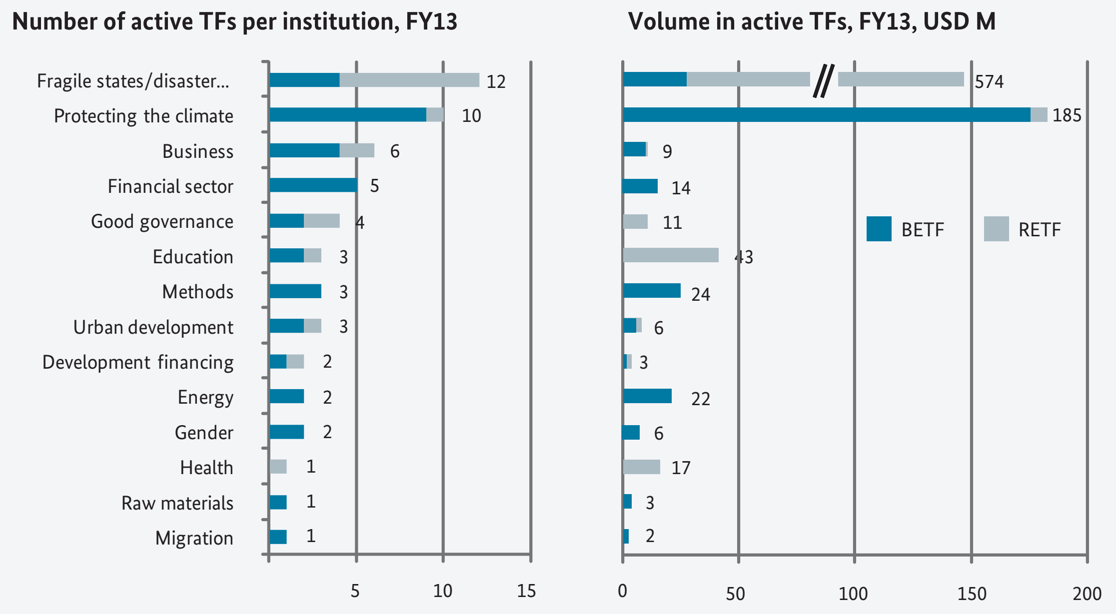
Source: joyn-coop based on World Bank (2013a).

German TFs, especially the smaller ones, are scattered over a large variety of topics. The following diagram shows the current active TF portfolio of Germany by main topic distinguishing between RETFs and BETFs.[60] It can be concluded that there is no particular thematic focus apart from fragile states and climate protection.

This supports findings from our interviews that decisions for TF contributions are not based on a common strategy or the aim to concentrate on certain topics.

This picture changes if German contributions to FIFs are taken into account (see box 5).

Diagram 18: Split among German main topics



Source: joyn-coop based on World Bank (2013a).

Box 5: German contribution to Financial Intermediary Funds

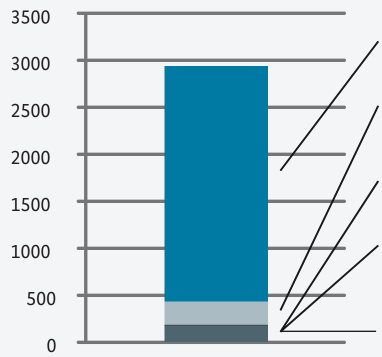
Germany currently contributes to twelve FIFs of which three did not receive any cash contributions during the last five years. All but one FIF are held by BMZ. See also Annex 5 for a list of FIFs. Protecting the climate is the most important topic with 85% of total contributions, most of the cash contributions during the last years, and seven related FIFs. In comparison to this, 46.5% of total contributions in the World Bank FIF portfolio and eight out 18 FIFs relate to climate change. German contribution as percentage of total is rather small (exceptions: 30% in the Special Climate Change Fund and 27% in the Clean Technology Fund).

60 According to the BMZ Website (http://www.bmz.de/en/what_we_do/issues/index.html), there are 16 main thematic areas. For the purposes of this study, we have slightly adjusted these main areas. We have replaced Human Rights by Gender and added the area of "Methods" to accommodate for TFs that primarily shape World Bank financing instruments such as Poverty and Social Impact Analysis or the Program for Results. Please see Annex 4 for a full list of the German TF contributions and how they were allocated to these areas.

Box 5 continued

Diagram 19: Key data for Financial Intermediary Funds with German contribution

Total contribution per topic, FY13, USD M

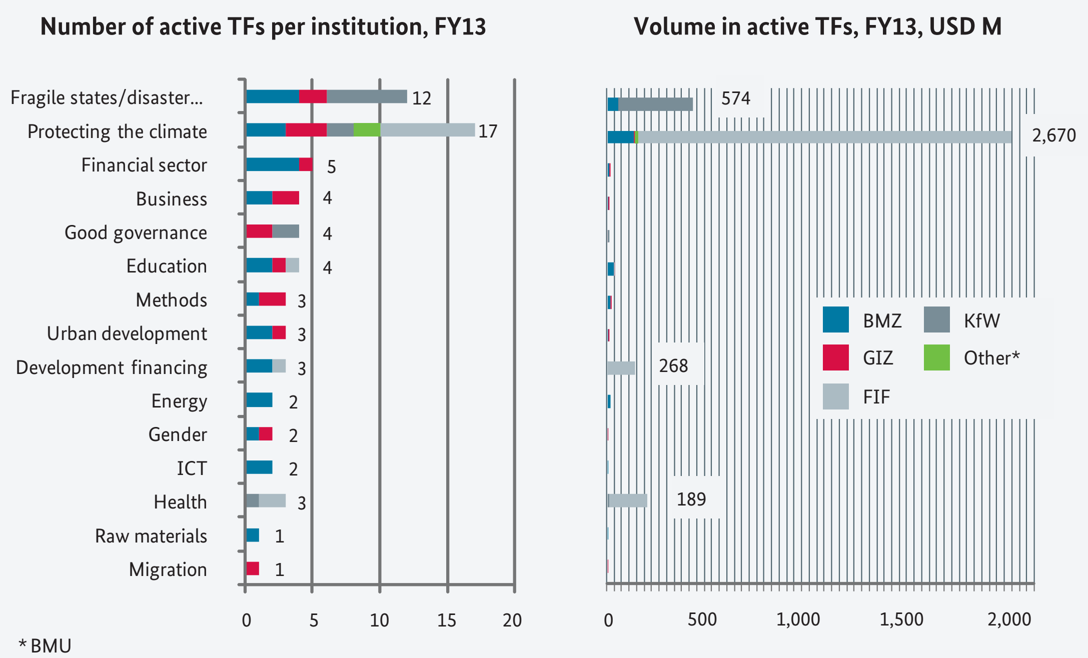


Topic	No. of FIFs	Cash Contributions USD M, FY09-13
Protecting the climate	7	1,225
Health	2	0
Education	1	1
Agriculture	1	0
Development finance (HIPC)	1	83

Source: joyn-coop based on World Bank (2013a).

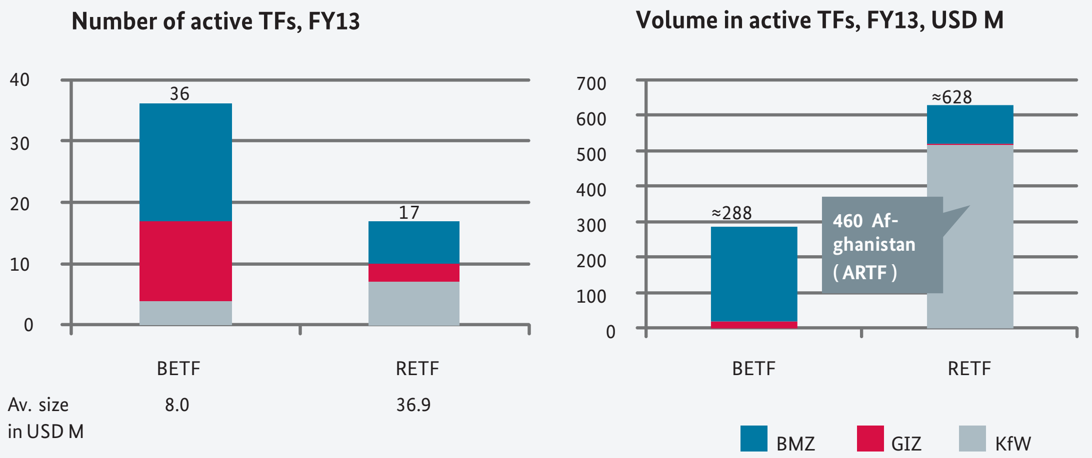
Germany's focus on climate change within their FIF contributions also somewhat impacts the main priorities described in diagram 18. If FIFs were added to the diagram, there would be a much stronger focus on climate protection than on fragile states.

Diagram 20: Split among German main topics - Financial Intermediary Funds included



Source: joyn-coop based on World Bank (2013a).

Diagram 21: German contributions to recipient-exectuted trust funds versus Bank-executed trust funds

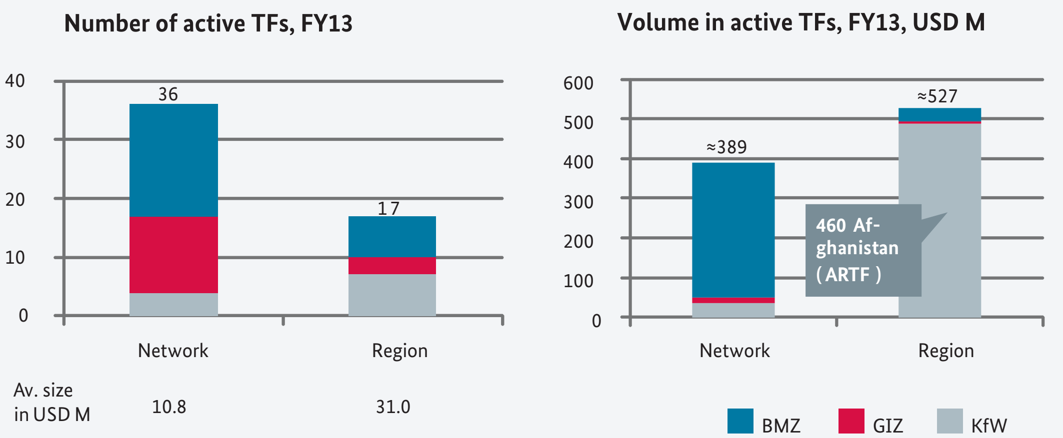


Source: joyn-coop based on World Bank (2013a).

An analysis of Bank- versus recipient-executed TFs shows that Germany contributes to more than twice as many TFs primarily disbursing into BETF-child funds.[61] However, in terms of contribution volume, RETFs are more prominent. BMZ and GIZ are more involved in BETFs wheras KfW is more involved in RETFs.

As described in chapter 2, much of the work done by networks is funded out of TFs. Therefore, we analyzed to what extent Germany is involved in TFs managed by networks versus regions. Related to this is the question to what extent Germany can shape the work performed by the networks.

Diagram 22: German contributions to trust funds managed by a regional department versus a network

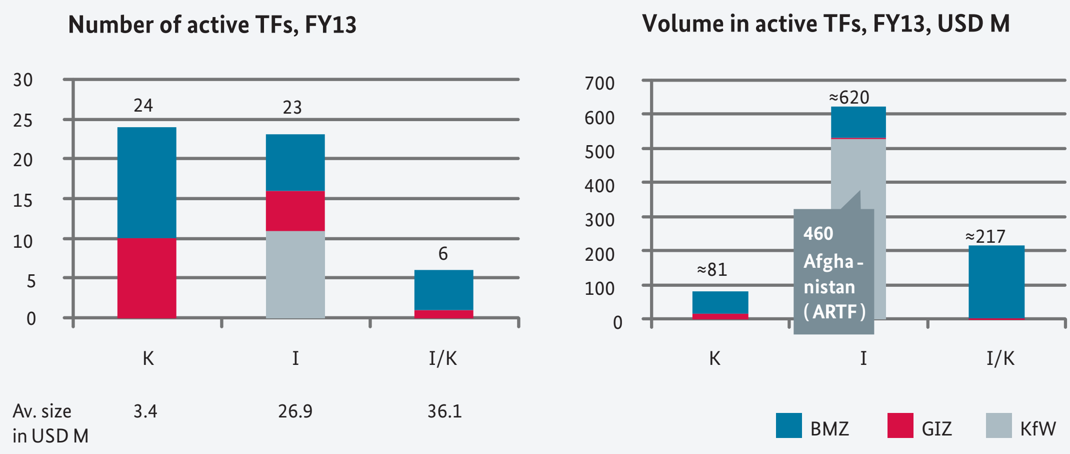


Source: joyn-coop based on World Bank (2013a).

The result of the analysis is that BMZ is involved in a high number of TFs in networks with an average size of contributions of USD 10.3 million. However, in terms of overall contribution volume, Germany's clear focus is on TF contributions in the regional World

[61] In our analysis, we consider TFs that only have BETF as disbursement category and those TFs with more than 50% of disbursements through BETF child funds to be BETFs.

Diagram 23: German contributions to knowledge-creating (K), implementing (I) and hybrid (I/K) trust funds



Source: joyn-coop based on World Bank (2013a).

Bank departments. The Afghanistan TF (ARTF) alone accounts for about USD 460 million.

To round off the analysis, we compared Germany's presence in knowledge-creating TFs versus implementing TFs. Knowledge-creating TFs primarily support development and dissemination of innovation and knowledge whereas implementing TFs finance operational work in the countries and regions.[62] In addition, there is a third category of TFs, where knowledge creation and implementation is equally important. In terms of numbers, knowledge-creation and implementing TFs are equally represented. However, in terms of contribution volume, implementing TFs are far more important, even when ARTF is not considered.

Knowledge-creation TFs have very low average contributions and are primarily funded out of the FiT-budget line (see 3.2 for explanation). I/K TFs are also mostly BMZ-funded, but are financed by other budget lines than FiT (climate change funds and core-funding to MAI, see 3.2)

[62] To distinguish knowledge and implementation TFs, we examined where TFs are held (region or network), what types of disbursements prevail (RETF or BETF), and what the overall goal of a TF is. In Implementing TFs, we also included those TFs that supported knowledge-creation for use in the recipient countries only, e.g. development of country risk maps or country level evaluations that are not used for broader knowledge development through aggregation at the TF parent level.

The diagrams presented throughout this report show the differences among the TF contributions by BMZ, GIZ and KfW, but it should be noted that all contributions to TFs of KfW and GIZ are made on behalf of BMZ and policy is decided at BMZ level. Nonetheless, each organization needs to be analyzed separately. First of all, contract negotiations and decisions about scope and design of TFs lie with the respective German institution – for GIZ and KfW within their contractual framework with BMZ. Second, each of the three players has different funding procedures and different internal processes that influence TF engagement.

In the following section, each of the German institutions and their main priorities and internal processes are described.

3.2 BMZ

TF characteristics: The BMZ TF portfolio is covering a large array of topics (12 different areas of development cooperation). The contributions range from USD 125,000 to USD 121 million with an average size of TF contribution of USD 6.9 million. When TFs that are funded out of climate funding and MAI core funding (see below) are included, average size is USD 14.4 million.

Motivations: Funds are primarily provided with the following motivation to IBRD-TFs: (i) Support development topics by putting them on the international agenda; (ii) Be part of a network of shared innovation and know-how; and (iii) Funding to fragile and post-conflict states, where other means of bilateral aid are not possible.

Funding sources: The typical source of funding is the so-called budget item “Funds in Trust (FiT)”. FiT is a line item in the budget plan for development cooperation (“Einzelplan 23”, 68 701, Nr. 14) that is earmarked for contributions to the UN and other International Organizations and INGOs. The budget item amounts to roughly EUR 35 million annually of which about 10% actually go to TFs at the World Bank. Accordingly, only about EUR 3.5-4 million are made available to World Bank TFs annually and are spread across several TFs. However, as these yearly allocations are often made to the same TFs, the overall contribution per TF is still relatively sizeable (on average USD 7 million). More important in terms of volume are a few IBRD TFs that are funded from other budget lines: (i) climate related TFs can be funded out of 896 09 Multilateral Aid for Global Environment Protection; (ii) TFs related to partnerships that are recognized as MAI can be funded out of the respective MAI core funding budget line.[63] However, these cases remain exceptions.

As shown, FiTs account for only one-third of the BMZ TF portfolio in terms of volume. Nevertheless, they are the standard instrument for BMZ and the following section therefore focuses on the description of the associated processes.

Project cycle: The responsibility for the allocation of the FiT-budget line lies with division 416 „United Nations“, which coordinates the allocation process of available funds with the different country and sector units. The allocation process follows the annual budgeting cycle where funds are agreed at the beginning of the year and are allocated throughout the year with a portion of the disbursements taking place before the end of the year.[64] BMZ sector and country units can apply for funding to division 416. Typically, demand exceeds funds available. Based on the applications, division 416 then establishes a list of TF allocations to be signed off by the state secretary. Therefore, there is a certain degree of collective reflection on the TF allocation from the FiT title, which represents an ex-post appraisal of the proposed topics rather than an ex-ante prioritization approach. So far, there are only general criteria for the individual TF allocation decisions such as development impact, political priority and predictability. However, there is no focusing on a limited number of themes or organizations. Presumably, division 416 aims to satisfy the funding demand of many units, which would explain the high number of different TF contributions. Some changes are envisaged for the near future: Currently a strategy is being elaborated that should define strategic directions and long-term funding priorities among different MAIs and different TFs according to the German objectives for multilateral aid.[65] However, it is still open to what extent priorities of the relevant institutional units will be taken into account (e.g. division 411 for the World Bank) and to what extent such a strategy might impact allocation decisions via GIZ and KfW (see next chapters).

Once funds have been allocated, the responsibility for the different TFs fully rests with the respective unit. The units are concluding the respective AAs and are responsible for the funds monitoring based on World Bank reporting. As division 416 is only supervising the allocation of funds, there is no centralized control or overview concerning on-going TF contributions within BMZ. Division 411 as the responsible unit for all World Bank related matters is only involved at a late stage in the process, before the actual funds (“Barmittel”) in the relevant budget year are transferred.

External representation: The interaction with World Bank is managed directly by the units, usually without involvement of the German Executive Director Office (GEDO). This holds especially true for the political representation in Steering Committees. On a technical level, the respective GIZ sector project often provides support and is interacting with World Bank.

3.3 GIZ

TF characteristics: The GIZ TF portfolio is also quite fragmented and covers 10 different areas of development cooperation. The contributions range from USD 87,500[66] to USD 6.2 million with average size of TF contributions at only USD 1.2 million.

[63] This is the case for the TFs related to the Global Partnership for Education that are funded out of 68 701, Nr. 9.

[64] The yearly allocations are usually disbursed over a period of three years. Reason is that the FiT budget line funds are committed as so called „commitment authorization“ with limit of two years. Therefore, it is possible to disburse within the actual year as well as in the subsequent two years (x, x+1, x+2).

[65] a) Effective cooperation with multilateral organizations in efficient int. development architecture, b) Systematic and targeted agenda-setting at international level, c) Pro-development interlocking of bilateral and multilateral aid.

[66] First time contributions to the same TF even start with 20,000 EUR.

Motivations: As previously described, GIZ cannot independently decide on TF contributions but is commissioned by BMZ to implement projects of Technical Cooperation. When asked about reasons for contributions to TFs, the following were mentioned by GIZ employees: (i) Complementarity of knowledge work by the World Bank to promote the achievement of GIZ project objectives; (ii) Fostering bi- and multilateral cooperation; (iii) Support of new instruments at the World Bank; (iv) Support of donor coordination and alignment.

Funding sources: TF contributions are usually made through the budget line "Technical Cooperation (TC)", which is used to implement bilateral projects of development cooperation (capacity building). In exceptional cases, flow-backs from the European Development Fund (EDF) are reprogrammed for the budget line "Technical Cooperation" and spent under its rules.[67] TC-funds that are programmed for a specific project are usually committed for a multi year period and do not have to be spent during the fiscal year (except for funds originating from EDF).[68] TC-funds are generally allocated across sectors and countries. Within these allocations, GIZ may propose to BMZ to use parts of the funding for TF contributions. This is usually done in the context of a larger GIZ-program and the TF must suit the overall bilateral TC program objectives. Most of the TFs are co-funded out of sector TC.[69] Sector TC is usually implemented by sector projects and often used for knowledge-creating TFs. Country TC is implemented via projects at the country-level and thus typically via implementing TFs. The overall budget for TC is much larger than the FiT budget. Therefore, TC contributions to TFs can theoretically be relatively large. However, in practice, this is not the case and the average amount is USD 1.2 million.

Project cycle: Based on approval and commissioning by BMZ (following the submission of a program document), the technical and content aspects of the TFs are negotiated by the respective GIZ sector and country unit. The AA itself is administered and concluded by the division Contracting, Procurement, Logistics (if necessary with assistance by the legal department), which is responsible for all financial aspects (e.g. negotiation of fee). Sector and country units are then responsible for TF management, e.g. operational management, liaison with the World Bank. All financial aspects (e.g. control of use of funds), however, remain in responsibility of the division Contracting, Procurement, Logistics that has access to the World Bank Client Connection database. In contrast to BMZ, GIZ has central access to information for financial and legal aspects concerning its TFs. Nevertheless, funding decisions are again not based on a formal strategy but driven by the different sector and country units in coordination with BMZ.

External representation: GIZ is not only interacting with World Bank on a technical level, but usually representing the German side in the Steering Committee (SC) – in case of sector TF in close collaboration with the commissioning units in BMZ.

3.4 KfW

TF characteristics: The KfW TF portfolio is very focused with more than 90% of funding for fragile states and covering only four areas of development cooperation. Even when excluding the ARTF, which makes up 80% of KfW's TF portfolio, 70% of funds are dedicated to fragile states. The average size of TF contributions is USD 11.6 million excluding ARTF (USD 47.8 million including ARTF). Most of the TFs are implementing TFs.

Motivations: As is the case with GIZ, a TF contribution of KfW is subject to approval by BMZ (or the Federal Foreign Office). Accordingly, KfW is commissioned by BMZ to enter into contract negotiations with the World Bank. Key reason for KfW's participation in TFs is their suitability as appropriate transitional financing modality in fragile contexts, where partner structures need support for successful project implementation. In addition, support to donor coordination and harmonization is a motivation, inter alia enabling large investments and visible reconstruction measures by the leverage effect of bundling donor funds.

Funding sources: The typical funding source is the budget line "Financial Cooperation (FC)" that is normally used to implement bilateral projects of development cooperation. Similar to TC, FC may be spent across several years and is generally allocated in intergovernmental negotiations. FC can only allocated across countries and regions but not sectors. Accordingly, KfW contributions are typically made to implementing TFs (as shown in 3.1). In some cases, FC can be used for TF contributions as part of larger FC programs. In addition, KfW is channeling funds of the Federal Foreign Office into TFs and comple-

[67] Until two years ago, EDF flow-backs were administered by KfW.

[68] However, GIZ is obliged not to overspend the overall annual budget line that exists for TC.

[69] Out of the current 16 GIZ contributions, 13 seem to be funded by sector TC.

menting budget funds with own funds raised on the capital market.

The **project cycle** is driven by the fact that KfW does not implement the projects itself. The project executing agency is an institution in the partner country. KfW appraises the institutions and projects on behalf of the German government to determine whether or not they are eligible for development support. Equally, TF contributions are appraised based on World Bank project documentation and on-site visits and proposed to BMZ in a program document.[70] Based on approval by BMZ, the responsible KfW project manager enters into the AA negotiations with the World Bank. In addition, a financing agreement is usually negotiated with the project-executing agency in the partner country. TF management and supervision lies in the responsibility of the KfW project manager. There is no centralized oversight of TFs within KfW.

External representation is usually handled by KfW on a technical level.

The following table summarizes key differences between BMZ, GIZ and KfW in the sourcing, management and supervision of TFs.

Table 3: Difference in sourcing, management and supervision of trust funds: BMZ, GIZ, KfW

Aspect	BMZ	GIZ	KfW
Funding source	FiT, Environment, MAI Core	TC, EDF flow-backs	FC, Foreign Ministry, own funds of KfW
Term	Yearly funds	Several years (mostly)	FC - Several years; Foreign Ministry - yearly funds
Allocation of funds	House internal call for proposals	Program document to BMZ / final decision by BMZ	Program document to BMZ or FFO / final decision by BMZ or FFO
Integration in German DC	TF contribution only without accompanying project	TF as part of larger GIZ program	TF sometimes part of larger FC program
Management of TF	Only regional/sector unit that holds TF	Content: regional/sectoral unit, Legal Department, Financial Department	Only unit in KfW responsible for TF contribution
Access to Client Connection	Not known	Yes	Yes
Payments	In tranches	Usually in full	Usually in tranches
Representation vis-à-vis World Bank	BMZ at a political level, GIZ at a technical level in case related TC program exists	GIZ/BMZ at a political level, GIZ at a technical level	BMZ at a political level, KfW at a technical level
Average size of contribution	USD 6.9 million	USD 1.2 million	USD 11.6 million

Source: joyn-coop based on interviews, see annex 1 for list of interviewees.

[70] It is also important to note that TF contributions are one form of the so called program-based approach (PBA) and as such need to be approved by the budget committee of the German Parliament.

3.5 Case study selection

We reviewed the involvement and experience of BMZ, GIZ and KfW in establishment and management of TFs in eight case studies. The following criteria formed the basis for selecting the case studies.

Table 4: Selection criteria for case studies

Selection criteria	Rationale
SDTF/MDTF	Include one SDTF to analyze difference to MDTFs
Execution as BETF or RETF	Include both to assess differences (not necessarily equally)
Stakeholders	Equal representation of BMZ, GIZ, KfW
Financial importance	Look both at financially very important and very small contributions a) in relation to total TF volume, b) in relation to German portfolio
Thematic Cluster	Climate Change, Fragile States required as these are considered important
Strategic Alignment: Umbrella Facilities	To be included as a cornerstone of the TF reform agenda
Age	Focus on more recent TFs because institutional history is more present and experiences are more relevant for future TF contributions
Management Fee	Different fee structures should be represented

Source: joyn-coop.

Based on these criteria, the following eight case studies were selected.

Table 5: Short description of selected trust fund case studies

TF Nr.	Trust Fund	Abbr.	Description of supported Programs
50900 71398	1) World Bank Energy Sector Management Assistance Program SDTF 2) ESMAP MDTF	ESMAP	Increase know-how and institutional capacity of developing countries to achieve environmentally sustainable energy solutions Includes research, analysis, knowledge products, advisory activities and grants for renewable energy solutions
53689 70968	1) Education for All Fast Track Initiative Secretariat MDTF 2) EfA Fast Track Initiative Catalytic TF II	EfA	Based on the Global Partnership for Education (GPE) - a partnership with developing and donor countries, int. agencies, private sector and civil society groups GPE provides incentives, resources, and technical support for sound education plans in developing countries
71077	Carbon Fund of the Forest Carbon Partnership Facility	FCPF	FCPF supports developing countries in their efforts to reduce emissions from deforestation and degradation (REDD+) Carbon Fund specifically purchases the emission reductions generated by CPF programs
71893	Umbrella Facility for Gender Equality	UFGE	Strengthens awareness, knowledge, and capacity for gender informed policy-making and increases the availability of gender relevant data and evidence Consolidates fundraising for gender activities

TF Nr.	Trust Fund	Abbr.	Description of supported Programs
71382	Multi-Donor Fund for Poverty and Social Impact Analysis	PSIA	Instrument for partner governments and World Bank: ex ante analysis predicting impact prior to policy implementation to support World Bank's policy dialogue, program lending and national policies.
72062	Program-for-Results Support MDTF	PforR	Development-financing instrument that links disbursements to achievement of results Aims at helping partner countries improve design and implementation of their development programs
71294	MDTF for Transitional Demobilization and Reintegration Program in the Great Lakes Region	TDRP	Supports countries in Great Lakes Region and beyond (South Sudan, Niger) in the implementation of demobilization and reintegration (D&R) programs of ex-combatants. German contribution exclusively flows to South Sudanese DDR program (support to testing-phase)
71778	Bangladesh Health Sector Development Program MDTF	HSDP	Enables Government of Bangladesh to strengthen health systems and improve health services for the poor Improves availability of generally-accessible, patient-oriented, affordable and high-quality services for health, nutrition and family planning

Source: joyn-coop based on World Bank (2012d), World Bank (2013g), World Bank (2013h), World Bank (2013i).

Please see annex 6 for a summary on how cases match the selection criteria. In general, EfA, FCPF, TDRP and HSDP can be considered as TFs oriented towards implementation in partner countries. Whereas ESMAP, UFGE, PSIA and PforR are more oriented towards knowledge-development with a strong network character. In addition, it is noteworthy that EfA and FCPF are partnerships where the related TFs play a subordinated role and all governance-settings are oriented towards the partnership.

3.6 Case study findings

In the following section, we present the key findings of the case study analysis. We reviewed the cases according to three key questions: (i) TF setup: What led to the decision to engage in the TF and how did the German side coordinate with the World Bank? (ii) TF management: What were key learnings from the management of the TF and its governance setup? (iii) TF assessment: Is the TF contribution considered a success and why?

3.6.1 Setting up a trust fund

In the interviews, we asked about how the process of setting up the TF was experienced and how the negotiations of the AA were conducted. Hence, TFs that were co-initiated by Germany need to be distinguished from existing MDTFs that Germany joined as an additional donor.

A) Experience with setting up a new TF

From a German perspective, there are a number of successful cases where Germany was the initiator of the TF. This worked particularly well where new tools and topics were introduced that presented an innovative approach for both sides - and also other donors. Another success condition was that both sides brought something to the table – the World Bank its large-scale sector programs, which could serve as a testing ground, and Germany its knowledge of the specific topic and on the ground expertise. Also, a large initial funding amount played a role in some of the cases. The success cases were mostly also characterized by very good informal relations between both sides.

From the World Bank's perspective, the German sector expertise is often highly appreciated. In one case, the World Bank counterparts pointed out that German specialists participated in the establishment of the baseline methodology for a TF. In another case, Germany was instrumental in bringing donors together in a MDTF.

B) Experience with joining an existing TF

From the German perspective, the experience with joining an existing TF was mostly positive, even though German stakeholders had no opportunity to re-negotiate the TF again. In fact, governance arrangements were already defined among the founding donors. However, the common perception is that the

World Bank is willing to accommodate specific requirements to a certain extent. In one example, the World Bank set up a separate TF only for Germany and the EU as the EU had the requirement to invest only in TFs with World Bank as sole supervising authority.[71] This could not be guaranteed in the existing MDTF. Generally, the size of the contribution amount was not decisive for a smooth process. This again was facilitated by good informal communications.

From a World Bank perspective, a minimum contribution requirement to participate in the Steering Committee of a TF is preferred. Conversely, "buying a seat at the table" by contributing only a relatively small amount is not considered good practice. In one of our eight selected cases, a USD 1 million minimum was required to participate in the Steering Committee. A minimum contribution requirement currently is the exception, not the norm. If it exists, its threshold varies.

C) Negotiations of the AA

From a German perspective, the World Bank seems to have more leverage in negotiations on the AA. Put differently, even when the German side proposed to modify the World Bank's draft AA, the World Bank's legal department did not accept the proposed changes. In none of the eight cases reviewed, it was possible to introduce fundamental changes that would have reflected the status of discussions between the two sides. For example, in one case it was informally agreed that the German funds would be used only for a certain purpose in a regional MDTF. However, the World Bank refused to formalize this agreement in the AA, claiming that all AAs of the other donors would then need to be changed. Instead, the German counterpart had to seek email confirmation on all important points. Another issue mentioned regularly in the interviews was that the German counterparts neither knew what the standard AA should contain nor where to get assistance on this.

From the World Bank's perspective, there is a standard AA. The latest version dates of 2012 and there is little room for negotiation in the primary section of the AA. Earmarking is not intended. However, if parties reach a joint understanding on the use of the funds, the World Bank will take this into account when disbursing funds. In one case, the TF manager mentioned that all German contributions were channeled into one child TF to enable a sort of earmarking. This was a feasible solution for a very well defined project under a MDTF.

3.6.2 Experience with management and governance of trust fund contributions

In the interviews, we asked about the experience with the different governing bodies, the extent of German involvement and the possibility to set a "German Agenda". We also asked about the experience with staff exchange and with reporting requirements.

A) Governing bodies

From the German perspective, there is no a priori preferred governance structure. Yet, as for the eight case studies Germany mostly engages in three-tier structures. Variations include presence of recipient countries, existence of independent expert committees and bank-internal technical teams for secretariat and work plan related functions. In general, governance bodies were more complex in case of partnerships as they included also recipients and civil society representatives. Overall, interviewees were satisfied with the way Germany was involved by the World Bank in the management of TFs. Only in one case, the German participation in TF decision making was only vaguely defined in the AA and no Steering Committee was put in place. However, in the majority of cases, governance settings are clear and Germany participates in TF decisions via the governance bodies. Again, in all cases the importance of informal exchange was mentioned, both for preparing participation in formal governance bodies (preparatory calls with participating members) and for "complementing" participation in formal governance bodies. As one project manager put it: "I get all my important information by calling the TF manager, not from the Steering Committee."

From the World Bank's perspective, generally the World Bank promotes a light version of governance arrangements. This particularly holds for Umbrella Facilities. The World Bank argues that in addition to the TF governance bodies there is always a World Bank-internal governance system for review and control. This usually includes peer reviews for sector expertise and oversight, management control and accounting control as well as other safeguards. Therefore, there is never an absence of governance, even in a case in which it was not defined with the donor. Nevertheless, the specific governance system of a TF is negotiable and depends on the type of TF and its

[71] As opposed to handing on funds to other executing agencies, such as bilateral aid agencies in the field or other partners.

size – particularly with regard to number of donors and additional partners in a global partnership – see chapter 2.

B) Agenda setting: factors increasing leverage – involvement and funding

From the German perspective, in many cases it was Germany that set the agenda or pushed certain topics that were considered important. In this regard, German interviewees mentioned three success factors: involvement, funding, and donor coordination. In one case, GIZ was able to leverage its partner-orientation to truly enable the recipient countries to take ownership of the TF activities. Key to success was constant campaigning and discussion in the Steering Committee meetings and beyond. It is important to note that in this case GIZ is a rather small contributor to the MDTF, but is perceived as very vocal as a sector project was set up solely to support the TF. In larger facilities, the amount of money seems to matter; one German interviewee said that Germany was one of the important stakeholders primarily because of being among the top donors. However, others mentioned that a small donor can also take up a lot of air time in the meetings and hence push topics.

In all cases the German side found the management of TFs very time-consuming. Even when the German participation is rather passive, the time requirements for follow-up and comments on all reports and decision-making documents are extensive. In one case, the MDTF governance bodies took decisions every year on its 32 work programs each accompanied with work plans and reporting.

Earmarking, on the other hand, was in most cases not important for the German side. Most interviewees mentioned that this would not be in the best interest of the TF and would make harmonization more difficult. In any case, it is usually at best possible as "soft earmarking" (see footnote 29 for a definition of (soft) earmarking).

From a World Bank perspective, German counterparts are perceived to participate more in collaboration and technical inputs at the activity level rather than at the strategic level in Steering Committees. One interviewee concluded that "Germany does not want to be involved in agenda setting".[72] This was mentioned in the context of time investment and the extent to which German participants were vocal in strategic level discussions, but also with regard to the amounts of German funds. Some TF managers observed a disconnect between the status of certain themes on the German development agenda versus the contribution amount and strategic involvement in corresponding thematic TFs. On the other hand, several TF managers mentioned the good collaboration of World Bank and German counterparts on the activity and country level.

In one case the TF manager mentioned that the more money donors put into the TF, the more openness there will be towards earmarking. An UF manager asserted that UFs were a means to establish a central overview of activities in a theme or sector and to align it with World Bank strategies, while reducing transaction cost and overhead. Should a donor wish to contribute to a topic in a specific region or country, there are two options. The preferred option would be that a donor contributes to the UF and the specific country needs are included in the work program of the facility once their alignment has been confirmed by the sector board. Should this not be agreeable, the donor can provide funding through a regional MDTF or SDTF at the risk of fragmentation, loss of overview, and higher transaction cost from a World Bank point of view, but potentially higher influence of the individual donor.

Box 6: The "Malawi Public Finance and Economic Management Reform Program" (TF 71796)

The Malawi **Public Finance and Economic Management Reform Program** is a good example where German counterparts are leveraging their local expertise to influence the MDTF's activities on the ground. The German TF Manager works closely with the Malawi Government on financial reform topics covered by the World Bank MDTF. With GIZ funding, work plans and activities are prepared with the Government and sometimes piloted. These plans and pilots are being taken up by the MDTF and implemented or scaled up. The German TF manager is in close contact with the World Bank counterpart. The close relationship with both Government and World Bank counterparts allows the GIZ manager to leverage the MDTF funding to push the local work and agenda to a degree that would not be feasible solely with bilateral funding.

Source: interview.

[72] Source: interview.

Box 7: Results Framework

RFs are perceived as important but also challenging both on the German and the World Bank side. The following table summarizes the most prominent views.

Table 6: German and World Bank perspectives on the Results Framework

Premise	There should be a RF at the outset of each TF ensuring results orientation and it should be a binding reporting tool to ensure accountability	Each TF should have an RF but RF is a living document and methodological limitations should be recognized World Bank is currently working on the standardization of RFs by type of TF, going about in the following order: 1) Co-financing and RETFs (through core-indicators and simplified core indicators) 2) BETFs and 3) Programmatic TFs and Global Partnerships
TF set-up phase - inclusion of RF in AA	Inclusion of the RF in the AA desirable: • Makes it a binding instrument for reporting • Ensures that the RF is anchored and accessible	Inclusion of a RF in the AA not desirable: • Will require an amendment to the AA each time there is a change to RF • Activities might not be known from the outset (programmatic TFs) and the establishment of meaningful indicators can be a methodological challenge at time AA is written
TF implementation phase	Only a number of TFs have RFs, which are held by the World Bank and sometimes updated without the knowledge of the donors	Even if not part of the AA, RFs usually exist and are shared in annual reports to the donors
Methodological aspects	TFs should be measured like projects on the outcome level	• Given short lifecycle of TFs, outcomes are difficult to measure within TF lifetime • Costs for evaluations outside the TF lifecycle are not borne by donors.

Source: joyn-coop based on interviews.

Going forward, the following options seem most opportune for the German side:

- Agree informally by when the RF will be established and how and it will be ensured that the latest version will be made accessible to all sides (e.g. through a link in Client Connection);
- Discuss the option of referencing the existence of an RF in the AA;
- Recognize that the RF is a living document and adaptation to changing circumstances are likely and desirable;
- Engage in informal consultations on RF standardization and reporting with CFPTO;
- Budget funding for follow-up evaluation of outcomes in the TF.

Source: joyn-coop based on interviews.

C) Staff exchange[73]

According to the German perspective, staff exchange is a rather popular tool. In four of eight cases, Germany funded a secondment to the World Bank TF Secretariat or a Consultant to the recipient partner of the MDTF. Although according to World Bank policies a seconded person cannot be directly involved in decisions on financing proposals from the donor that has seconded the staff member or deal with financing for

[73] Also called „co-execution“ by the World Bank.

specific purposes defined by the donor,[74] it was considered very helpful by the German side in all cases. This was mainly due to the direct communication channel to World Bank but also better insight into the daily work of the TF Secretariat.

From a World Bank perspective, feedback on staff exchange was also positive in all cases. Know-how and additional human resources were highly appreciated. The World Bank also underlined that secondments strengthened communication with the donor.

D) Reporting requirements

From the German perspective, the degree of satisfaction with narrative and financial reporting was mixed. Criticism centered on the lack of problem focus and impact orientation. While impact orientation is required in German reporting to BMZ, World Bank finds this difficult to implement because of the short life cycles of TFs. When interviewees were satisfied with the quality of the reports, it was often attributed to the experience and know-how of the TF manager or the extent to which donors can contribute. RFs were highly appreciated, however, the process of agreeing on them with World Bank was described as difficult (see box 7).

From the World Bank's perspective, it was clear that there is flexibility on reporting at the informal level. While there is (bi)annual standard reporting, World Bank counterparts will furnish information also with an adapted format to donors. If required, German counterparts can ask for additional information. This can happen as part of a qualitative section in the reporting format at TF set-up or informally, when specific information is needed. German counterparts should keep in mind, however, that this does present a burden to the administrative team and should be limited to essential information required by the donor.

[74] This is the explanation from practice in the Global Partnership for Education (GPE). The wording of the staff rule is as follows: „In accordance with the relevant Staff Rule, it is the responsibility of the hiring manager to ensure that there are no conflicts of interest associated with the hiring of a specific individual. Specifically, staff financed by external funds (i) may not be involved in any way in the administration of the funds of the same member government, foundation or NGO in which they were employed, for up to five (5) years after said employment, and (ii) may not use their employment with the Bank to gain special favors or benefits for the member government, foundation or NGO. Staff should also refer to Staff Manual General Obligations of Staff Members."

3.6.3 Interviewee assessment of trust fund success

Finally, we asked about a general assessment of TF success, first without indicating any criteria and in a second step according to the criteria of the Paris Declaration (German perspective) and the World Bank internal criteria of additionality, relevance of TF objective and transaction costs (World Bank perspective, see also chapter 4 for an explanation of the criteria).

A) Overall assessment

From the German perspective, most cases were considered a success (some fully, some partly) and a couple are not far enough into implementation to draw a conclusion but experienced some hick-ups in the set-up phase. This was partly attributed to the fact that the original motivation for participating in the TFs was achieved (e.g. benefiting from the network; World Bank instruments improved), partly that the TF's objectives were achieved (e.g. improving education). An important success factor seems to be the quality of the TF manager and also the continuity of staff at the World Bank.

From the World Bank's perspective, TFs were generally seen as a non-bureaucratic and additional tool to reach goals in knowledge creation and dissemination and in implementing pilots. It was also mentioned that some initiatives have grown so much and the TF has achieved agenda setting to a degree that governments and donors cannot afford not to be part of the initiative. However, there were also cases in which the sustainability of the work in the absence of TFs was questioned. In one case in particular it was mentioned that it is not clear if the type of analytical work would continue without a TF due to a flat budget for analytical work. Another issue mentioned was that while TFs are used for co-financing and to prepare lending work, for some topics, recipient countries do not want to use IDA anymore. This is because IDA operations require a lengthy preparation process, more scrutiny and might require the Government to pay interest. Donors therefore rather ask for TF grants, which are less bureaucratic and free of charge to the Government.

B) According to Paris Declaration and World Bank Criteria

From the German perspective, criteria of the Paris Declaration were mostly met. This is especially true for donor alignment and harmonization thanks to governing bodies unifying all donors and good informal communication. Results are mixed for ownership where it was sometimes criticized that recipients were not present in governing bodies or trust-funded activities were not sufficiently anchored in recipient countries. Yet, especially in case of RETFs recipients play an active role. For fragile states it was stressed that an exit strategy for the TF that clearly indicates how the recipient country could continue the activities after TF closure is important. As for results orientation, responses were equally mixed mostly because of insufficient results monitoring (see box 7 on Results Framework).

From the World Bank's perspective, TFs can often help to reduce transaction cost, especially when they are used for co-financing where they do not finance stand-alone activities but there is administrative cost sharing with other sources of finance. World Bank interviewees felt that particularly for the donor, the transaction cost for TF is very low. Some projects rated government ownership as very high where no funding is allocated without a government plan (sector plan or budget creation by government). For other TFs the World Bank recognized that the German counterparts would have wished more ownership by the recipients. TFs are seen as an effective tool for harmonization, especially where initiatives grow and more and more donors and governments are on board. Alignment is seen as a critical point in some TFs where there is general skepticism whether countries should engage in activities that are highly risky. Regarding results it was pointed out, that given the pilot character of some TFs, the learning process in itself should be seen as an important result.

3.7 Summary of observations

Based on the case study analysis, a few aspects were identified that seem particularly important for smooth TF setup and for managing and achieving objectives such as agenda-setting. However, German and World Bank perspectives are not fully aligned on these aspects.

A) Experience with and knowledge about TFs

- The more experience World Bank counterparts had with TFs, the more responsive and transparent they were perceived by their German partners;
- Institutional history on individual TFs is important for smooth management, however difficult to preserve due to frequent job rotation on both sides;
- Knowing the standard template of AAs with negotiable and non-negotiable sections is helpful during the negotiation process to prevent "battles" that cannot be won by the German side;
- More information about the diverse options for governance setups of TFs would help determine the most appropriate model for each type of TF.

B) Size of contribution amount

- When initiating a new TF, the contribution amount plays an important role in Germany's leverage on the scope of negotiations;
- When joining an existing MDTF, the contribution amount is not very important for agenda-setting according to German perspective;
- This is contradicted by some TF managers on the World Bank side, particularly in large programs for knowledge creation, where the funding amount gives the donor more weight in strategic discussions;
- As a result, German is not perceived as a donor leveraging TFs for agenda setting in knowledge-creating networks but more effective at the country level interaction and influence on programs;
- Some TFs require a minimum contribution to "buy a seat at the table". This might become more common, particularly for well-established TFs.

C) Human resources and expertise

- Human resources and time for participation in SC meetings are often seen as more important than contribution amount by the German side;
- According to World Bank officials, sufficient manpower and engagement to support strategic goals in SCs is important in addition to a high contribution amount;
- World Bank interviewees maintain that if Germany was more vocal and would leverage funding more strategically in large programs, the influence could be much larger;
- In case of implementing TFs, technical expertise of German (local) teams can be leveraged for TF activities;
- Staff exchange was in all cases appreciated by the World Bank and fostered informal communication, but it only had limited potential to push the own agenda.

D) Informal communication and relationship building

- Good informal communication is key for access to information and agenda-setting;
- Decisions taken by the Steering Committee are to a large extent prepared and pre-empted by informal discussions among donors and with the World Bank;
- From a German perspective, relationship building with other donors is also important in order to build strategic alliances during Steering Committee meetings;
- According to the World Bank, Germany is sometimes perceived as a quiet donor with less informal interaction, particularly on strategic topics, hence loosing influencing power;
- However, country level interaction with German specialists is very much appreciated by the World Bank and can influence activities on the ground;
- Informal arrangements are often appreciated by World Bank counterparts as these give them with more flexibility; sometimes it can be even counterproductive to request formal arrangements, e.g. inclusion of specific reporting requirements into the AA, which are however feasible at the informal level.

4 Summary assessments of the World Bank and German trust fund portfolios

Based on the aggregate analysis of the World Bank and German TF portfolio in chapter 2 and the in-depth analysis of the German stakeholders and the case studies in chapter 3, this chapter provides a summary assessment of the World Bank TF portfolio and of the German portfolio in particular. Based on this assessment, we point out the key challenges in the German TF portfolio that our recommendations will address in the following chapter.

4.1 Assessment of the trust fund portfolio of the World Bank

The effectiveness of TFs as a financing mechanism for World Bank activities is typically assessed in view of the appropriateness of TFs. The underlying question is under what circumstances TFs add value as a distinct development financing vehicle. The criteria for measuring appropriateness of TFs include (A) additionality, (B) relevance of TF objectives, and (C) distinctiveness of TF contributions.[75] These criteria have also been used in an evaluation by World Bank's Independent Evaluation Group (IEG) of the overall TF portfolio at the World Bank in 2011.[76] The following assessment is based on this evaluation as well as on our interview findings.

A) **Additionality**: This is measured as the degree to which TF resources add to the overall aid envelope that is available to recipient countries. IEG states that except for the United States, donors draw their budgets for TFs from their overall aid envelopes; hence, it is debatable whether TFs have mobilized new and additional aid. Yet, in a few cases, TFs have mobilized aid from non-ODA sources. While credible counterfactuals are difficult to establish, it seems that TFs tend to replace core-bi aid more than they replace core-multi aid.[77] Our own interviews suggest that especially donor countries with weak bilateral implementation capacity at recipient country level tend to channel bilateral aid through TFs at the World Bank to pool resources for a common purpose and to economize on their own administrative budgets (e.g., DFID).

B) **Relevance**: TFs are increasingly relevant for the World Bank, given their increasing alignment with its core agenda. In particular, most TFs support country priorities identified in the relevant CASs. Most of those funds support individual recipient countries. Other TFs are established as global programs which support multiple recipient countries and whose thematic priorities have become increasingly salient for the World Bank.[78]

C) **Distinctiveness**: TFs make distinct contributions in three areas of activity: (i) country-level investments, to scale up existing operations such as in co-financing TFs, to assist fragile countries through MDTFs, or to promote the provision of global public goods at the country level through thematic TFs; (ii) technical assistance and knowledge generation, thereby adding value to Country Assistance Strategies, typically through BETFs; and (iii) piloting of innovation, for which it would be difficult for the World Bank to mobilize core funding given its relative cost-intensity and its risks.[79] In sum, IBRD/IDA TFs in these three areas have expanded the scope of World Bank work and thereby contributed to organizational growth over the last two decades. In addition, the World Bank established FIFs as a new business line, adding a stable source of revenue from the provision of financial trustee services to those funding mechanisms (as well as partial implementation under FIFs).

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75 IEG (2011): 26-40. Additionality refers to TFs as a financing source which does not draw on other ODA sources, while relevance looks at the thematic focus of TFs and distinctiveness at the programmatic value add of TFs as an instrument that can be used for activities where other sources of funding can't be.

76 It has to be noted that IEG only evaluated the appropriateness of the TF instrument and not the success of the trust-funded projects.

77 IEG (2011): xvi, 26.

78 Ibid.: 27-29.

79 IEG (2011): 29-40.

Table 7: Summary assessment according to IEG criteria

Overall World Bank portfolio	German TF portfolio
Additionality	
Global additionality questionable, crowding out rather of core-bi aid than core-multi aid	No additional funding
Relevance	
Increasingly relevant for IBRD/IDA due to increasing alignment with core agendas	Most relevant through its support of country TFs
Distinctiveness	
Global programs (i.e., thematic funds) as new business, critical support at the country level (i.e., co-financing TFs and country-level MDTFs), piloting TFs (i.e., BETFs)	Most distinctive in country-level TFs; to a lesser degree, establishment of new instruments at the World Bank

Source: IEG (2011).

4.2 Evaluation of the German trust fund portfolio

While these general findings also apply to the German portfolio as part of the general TF portfolio at the World Bank, we specifically assess the German portfolio in this section. In order to do so, we assess the German engagement in view of the three guiding principles for German multilateral development policy that form the current strategic orientation for all forms of cooperation with MAIs.[80] Their overall objective is to put the "BMZ on track towards cooperating more effectively in future with a smaller number of more efficient organizations, and conveying its interests and positions in a targeted and proactive manner in the international arena".[81]

A) Effective cooperation with multilateral organizations in an efficient international development architecture: In this regard, Germany seeks to curb fragmentation and achieve an improved division of labor between the multilateral and bilateral level. The German TF portfolio with its relatively small number of 49 TFs does not contribute to fragmentation to a large extent. The overall number and contributions to TFs increased strongly over the last ten years, but this can be attributed to the overall increase in TFs. Especially when looking at the different types of TFs, Germany compares favorably to the World Bank average. It has a focus on MDTFs and is fully aligned with the World Banks allocation of funds to RETFs and BETFs. This is likely to result from Germany's approach to refrain from earmarking. In addition, Germany is co-funding one of the four umbrellas and is thus supporting a new TF tool that will further decrease fragmentation at the World Bank.

However, the German TF portfolio is spread over a large variety of topics, as shown in chapter 3. Closely related to this is the fact that Germany's contributions are fragmented with 70% below USD 5 million. This certainly reduces efficiency, as transaction costs for small contributions are relatively higher for the World Bank compared to larger contributions. This also applies to the German side: even with a small contribution, a considerable time investment is required to successfully participate in TFs. In summary, there should be potential to reduce fragmentation in the German TF portfolio.

On a more general level, we find that effective cooperation is strained by the current relatively low level of knowledge about TFs and TF management among the German stakeholders. This leads to misunderstandings and delays during the set-up of TFs and the sub-optimal use of (time)-resources during the management of TFs.

B) Systematic and targeted agenda-setting at international level: In this regard, Germany aims at being considered an honest broker and being identified with selected themes.[82] In the German TF portfolio, the topic climate change clearly stands out as a German priority. The case interviews revealed that on this topic Germany is perceived as very knowledgeable and vocal partner. However, with regard to much of the rest of the portfolio, Germany does not make effective use of knowledge-creating TFs.

[80] BMZ (2013a).

[81] BMZ (2013a): 5.

[82] BMZ (2013a): 9.

The analysis showed that Germany invests relatively small amounts of money in a large number of TFs. This means that Germany foregoes the opportunity to more effectively push its focus topics. This is exacerbated by the finding that often Germany is not perceived as present in strategic level discussions, both on formal and informal levels. This is particularly true for knowledge-creating TFs in large programs. There are two types of evidence for this observation. One is our quantitative analysis of average contribution amounts, which shows that sometimes funding is low in areas where Germany publicly announced its political interest. The second is that the participation is rather cautious in Steering Committees, while other donors are more vocal and clear about their objectives. There are TFs in which this is not the case and where German agenda-setting is strong. However, these are mostly country level TFs where activity and strategic levels are more closely interlinked. The rare exceptions to this rule are at the programmatic level. The perception of Germany as a quiet donor was not only mentioned in the case study interviews, but also by interviewees on the overall TF portfolio level. Germany has so far engaged less than other donors in informal TF consultations and showed less presence in discussions with CFPTO. The above leads us to conclude that there is a certain lack of engagement in TF strategic level discussions.

C) Pro-development interlocking of bilateral and multilateral aid: In this regard, Germany seeks to enhance efficiency of its development cooperation by coordinating and interlocking bilateral and multilateral engagement to create a win-win situation for both sides.[83] In the overall German TF portfolio, this objective is already partly achieved through Germany's effective participation in implementing TFs. Here, Germany is effectively scaling bilateral activities. Cases like Malawi (see box 6) showed that TFs were leveraged to bring other donors on board to finance activities which were prepared by recipient governments with support of German bilateral aid or which directly complemented activities financed by Germany. In addition, the strong involvement in fragile states supports this view. TFs are being used in countries and regions that cannot be sufficiently served through the BMZ bilateral portfolio, either because there is no official development aid (Zimbabwe) or because partner structures are not yet fully restored after violent conflicts or weather-related disasters.

[83] BMZ (2013a): 10.

4.3 Summary of key challenges

In summary, we would like to highlight four key challenges, which we derive from our assessment and which we will address in the next chapter: A) Fragmentation B) Lack of Engagement and C) Lack of strategic direction, D) Lack of centralized TF information.

A) Fragmentation: As the above analysis indicates, there is room for improvement with regard to fragmentation, especially in view of limited funding for a high number of TFs and different topics.

B) Lack of engagement: Germany is not perceived as present on a strategic level. This is particularly true for knowledge-creating TFs and concerns both monetary as well as vocal engagement.

C) Lack of strategic direction: Both fragmentation and lack of engagement may be related to our finding that there is no ex-ante collective decision-making process for TF contributions governed by a common strategy. This is especially true at the overall portfolio level – as there is no guiding principle or strategy in place for the combined allocation decision of all TF contributions (BMZ, GIZ and KfW). With regard to the individual institutions, lack of strategy applies to a different degree. It is less important for KfW, given that its primary use of Financial Cooperation (FC) for TFs in support of fragile states represents a quasi-strategy. With regard to Technical Cooperation (TC) it seems that BMZ's decision making is driven by different strategies of the individual sector and regional regions. With regard to FiT, a collective decision-making is already in place to a certain extent due to the final approval by the state secretary. However, there is currently no ex-ante prioritization of certain topics in place for the FiT allocation, but the existing process is currently under discussion.

D) Lack of centralized TF information: The 49 TFs are managed by a several divisions in three different organizations. In addition, in all three organizations there is a relatively high frequency of internal job rotations. Therefore, TFs are frequently set up by persons without previous TF experience. It may thus happen that several people are responsible for managing a TF over its lifecycle, making it difficult to retain related knowledge. The lack of institutional history is so far not balanced out by centralized information provided through a central TF unit responding to questions or a written guideline providing support. There is also no institutionalized central overview of the status of the German TF portfolio held by either BMZ, GIZ or KfW.

5 Opportunities to further develop the German trust fund portfolio

In this chapter we present our recommendations addressing the challenges outlined above. The recommendations focus on the following three key aspects (i) potential consolidation of the German TF portfolio, (ii) more strategic and effective future contributions to TFs at the World Bank, and (iii) refining Germany's position as a World Bank shareholder towards the TF reform agenda.

5.1 Opportunities for consolidation

In order to clarify the consolidation opportunities, we briefly revisit the legal foundations for consolidation at the World Bank as well as on the German side.

5.1.1 Legal foundations

Requirements for consolidation at the World Bank

We start off with some key terms needed to elaborate on the main aspects of consolidation.

- "Closing date[84]" specified in the sunset clause: Especially the earlier TFs do not have a predefined end date or the end date lies far in the future. Without a closing date, the TTL needs to ask for the fund to legally close.[85] If a closing date is defined, the TF legally closes within 30 days after this date.[86]
- Status shows as "active" in the database: The Client Connection database designates a TF as active or legally closed. It is to be noted that due to system issues any MDTF that Germany officially exited would still be shown as active, as long as other donors are contributing and the closing date has not been reached. Therefore, a TF may be shown as active in the list of German contributions only because the TF itself is still active, not because Germany is still participating.
- "Dormant" fund: TFs, which are legally open but where no activities are funded anymore are considered dormant.

Now, the various options for withdrawing from a TF hinge upon the actual flows of funds as are depicted in diagram 24. When a donor wants to exit a TF, it matters whether the donor has already paid its contribution fully or partly, as well as whether the World Bank has already committed the funds to the recipient. Usually before exiting a TF, the donor needs to fully pay his contribution and only then can be repaid its pro-rata share of the funds that have not yet been committed.

Diagram 24: Flow of funds – donor – trust fund – recipient

Source: joyn-coop.

Another aspect to consider is that the closing procedure can be particularly cumbersome for the World Bank in case of MDTFs. A MDTF can legally be closed only once the remaining balance of donor contributions is reimbursed to all the donors on a pro-rata basis. There are a number of TFs for which one or more contributing donors have changed the institutional structure of the contributing entity and the original donor account does not exist anymore. When the new entity does not have the right to receive funds, it stalls the process for all donors in the MDTF. The World Bank is aware of these cases and is looking for a legal and procedural solution for closing these TFs.[87]

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[84] Also called "end-disbursement date" in the AA.

[85] The TTL initiates action for closure when the TF activities are completed. CTR cancels any unused funds, ensures the disposition of all cancelled funds in accordance with the legal agreements, and prepares any required final financial statements; see World Bank (2012c): 58.

[86] At the disbursing account level, the closing date is set out in the Grant Agreement and should be no less than six months prior to the end-disbursement date in the AA. For BETFs, arrangements on closing dates and/or final dates of disbursements are governed by the Administration Agreement between the Bank and donors. Normally there is a 4-month grace period between the closing date of the BETF and the end-disbursement date of the AA; see World Bank (2012c): 58.

[87] Now it is possible to choose to roll remaining funds over into IDA. Old TFs did not have this option, which causes the stalling of the closing process.

Donors generally have two options when exiting an active TF before it has been closed:

1. Cancellation of the AA by invoking the standard provisions on cancellation in order to receive its pro-rate share of uncommitted funds. The donors must notify the World Bank at least three months prior to cancellation.

2. Send an Exit Letter (disseminated by the World Bank in April 2012). The standard provision of this letter is as follows: "The donor hereby waives any rights to receive (i) its pro-rata share of any remaining uncommitted balance of the TF as of the Cancellation Date; (ii) its pro-rata share of any remaining balance of the TF as of the final end-disbursement date; and (iii) any funds that the donor may be entitled to receive after the end-disbursement date of the TF. In addition, the donor hereby instructs the Bank to transfer to IDA [...] any funds under (ii) and (iii) [...]".

Usually, option 1 should suffice. An Exit Letter is only necessary a) when the donor does not want to receive any funds back but instead wants to roll funds over to IDA, and b) when TFs date from a time when there were no standard provisions on fund withdrawals in the AA.

Requirements for consolidation in Germany

There are no other German legal requirements for formally exiting active TFs (as described above by cancellation or withdrawal letter) other than what is stipulated in the AA. The German budget law („Bundeshaushaltsordnung“) §44 can serve as a reason to exit TFs as it requires that allocations to institutions ("Zuwendungen") are used in an earmarked way ("zweckentsprechend").[88] "Earmarked" in this sense means utilization for agreed upon purposes. This does not mean that earmarking for specific activities within the TF is required but merely that stipulated purposes of the TF are adhered to. Otherwise, Germany has the right to withdraw the funds.

5.1.2 Potential for consolidation

The World Bank is currently updating its procedures to be able to close down some TFs where neither the donor nor the World Bank work on or monitors the underlying program anymore. It is foremost in this context, that there is potential to consolidate the current German TF portfolio.

In general, disbursements from the German portfolio are progressing in a timely fashion. CFPTO explains that this is due to the general reticence regarding earmarking in German contributions (particularly true since Germany is engaged mostly in MDTFs) and since the World Bank mechanisms can be considered most efficient for allocation of funds. For the World Bank it is hence easier to disburse. Nevertheless, a few TFs in the German portfolio can be considered inactive, either because they are beyond closing date or because they are dormant for other reasons. The following measures are therefore recommended:

1. Clean the databank from TFs that appear active in the databank although they have already been closed (bugs in the system):

2. Formally close the TFs that are beyond closing date and those that are without closing date but are actually dormant. In both cases, the World Bank will request administrative closure from its central units on behalf of the donor.

In the process of writing this study, the issue of dormant funds has been addressed with CFPTO. As a result, seven TFs will likely be closed in the near future. There is no further need for action from the German side, except for possibly a follow-up with CFPTO on a few unresolved cases. The German TF portfolio is consequently expected to shrink from 49 to 42 TFs (-15%).

For the future, it is recommended that division 411 regularly (maybe once a year) researches the Client Connection database for older TFs with no apparent activity (e.g. look at development of disbursement rate) and then enquires with CFPTO for clarification. This way, the German portfolio can be kept clear of dormant funds. It is important to note, that only when the TF is not dormant, Germany must pro-actively inform World Bank about its desire to exit a TF. This is usually handled between the person on the German side responsible for the TF and the World Bank (TF manager or TTL).

Apart from this administrative consolidation, it is also possible to programmatically consolidate the German portfolio, for example by reducing the number of topics. However, we are not recommending such consolidation in the ongoing TF contributions as there are apparently no cases of overlapping or redundant TFs. Furthermore, each individual TF would have to be

[88] BMJ (2013).

examined in order to make such a decision. Finally, it would have to be evaluated in each case whether the existence of specific additional benefits that are not evident from the outside would oppose consolidation (e.g., development or political rationale, complementarities with and leverage of German development cooperation projects, or access to an expert network). Instead, we recommend a new engagement policy, which would also lead to a programmatically consolidated TF portfolio going forward. This engagement policy is described in the following section.

5.2 Proposal for a trust fund engagement strategy

The future TF engagement strategy should result in an overarching approach regarding contribution and allocation decisions as well as a more effective and efficient engagement. In our recommendation, we therefore address both the macro level ("on which type of TFs should Germany concentrate and why?"), as well as the micro level ("how to manage the individual TFs?").

5.2.1 Macro-level strategy (overall trust fund selection)

As described in chapter 3, there is so far no underlying strategic process for the overall decision in which TFs Germany should become involved. With regards to TC and FC, the sector units and regional units of BMZ take the decision. Regarding FiT, there is even an allocation competition within BMZ between the different sector units and regional units. For FiT, a more strategic approach is currently being developed. However, this budget line makes up just about 13% of the total German TF portfolio.[89] Therefore, an overarching strategy is required. This strategy should allow a collective decision-making process among the German stakeholders as well as joint planning of the different funding sources to achieve a more coherent approach to TF contributions.

For the collective decision-making process, the same objectives should apply that underpin Germany's position toward multilateral aid:[90] (i) Effective cooperation with multilateral organizations in an efficient international development architecture; (ii) Systematic and targeted agenda-setting at international level; and (iii) Pro-development interlocking of bilateral and multilateral aid. Nonetheless, the budgetary requirements for TC and FC (as a bilateral aid instrument) apply also to TFs.[91]

Based on these objectives we propose a two-stage decision-making process for the overall TF selection.

1. With regard to (i) it should be assessed if TFs are indeed the right instrument for a particular topic or country or if the objectives can be better achieved by participation in World Bank decision-making bodies as shareholder (e.g. through special themes in IDA). See also annex 7 for a general discussion of arguments for and against TFs.

2. With regard to (ii) and (iii), it should be assessed how Germany can best be involved in knowledge-creating TFs and in implementing TFs. The TF strategy should allow an informed decision for both types of TF on the basis of the respective opportunities and corresponding German strengths.

Germany's portfolio of **knowledge-creating TFs** is currently too fragmented to really leverage its potential. Knowledge-creating TFs offer the opportunity to shape development topics and related instruments and to influence also the related World Bank development networks. However, in order to allow for agenda setting, they require (i) a contribution amount sufficient to give Germany a strong voice and backing in SC meetings and informal channels, (ii) broad political support within Germany underpinned with discussions and meetings between the German government officials and the World Bank, and (iii) expertise for assuming thought leadership and act as a valued discussion partner (preferably not only BMZ experts but also academics whose publications are disseminated and used or who speak at the World Bank). We therefore recommend that Germany concentrates on selected knowledge-creating TFs. The selection should be based on development policy priorities and areas of specific German expertise.

With regard to **implementing TFs**, Germany is already leveraging its potential to a large extent. Nonetheless, there is room for improvement. Implementing TFs offer the opportunity to leverage the country-level engagement of bilateral German

[89] Looking just at the contributions directly held by BMZ, FiT accounts for about 1/3 of the BMZ TF portfolio in terms of volume.

[90] BMZ (2013a).

[91] See „Leitlinien für die bilaterale Finanzielle und Technische Zusammenarbeit mit Kooperationsländern der deutschen Entwicklungszusammenarbeit".

development cooperation. However, complementary bilateral projects and specific country-level knowledge are required to fully unfold this potential. As described earlier, implementing TFs are also used when "normal" development cooperation does not work (fragile states). We recommend, that Germany continues its strategy to support multiple implementing TFs. The selection should however be more conscious so that TF selection is driven by the potential to leverage bilateral aid and increase interlocking of bi- and multilateral aid.

In order to implement such an overarching strategy, we recommend a high-level workshop (every three years) to agree on the few knowledge-creating TFs or topics (perspective of eight to ten years) as well as on the overall (macro-level) TF strategy. Additionally, we recommend the preparation of a policy paper that sets out the strategic TF choices and requirements (e.g. also the various budgetary obligations of the different funding sources). This policy paper will serve to inform the different stakeholders in BMZ, GIZ and KfW and facilitate a collective TF decision process.

Furthermore, we recommend a strategic selection of the available German funding instruments, to use the most suitable for different types of TFs. For example, it is debatable whether FiT is the right instrument for a knowledge-creating TF given its limited volume. Only if used every year for the same two or three TFs (about USD 2 million annually), it would allow for a sufficiently important contribution amount over a longer period of time (for which an adequate agreement with the World Bank would need to be found, e.g. Letter of Intent indicating the long-term contribution amount). On the other hand, sector projects of Technical Cooperation may be suitable funding instruments as there is not per se a funding limit. Furthermore, the projects usually involve a significant degree of expertise and human resources that could also be invested into the TF. However, as described above, the TF-contribution must suit the overall bilateral TC program objective and can only be a subordinated element within the larger TC program.

A process should be implemented that brings together the input from all relevant divisions to assess which of German funding instruments should be selected for the planned TF contributions. This process should ideally precede the annual budget planning process.[92]

[92] The so called „Rahmenplanung".

5.2.2 Micro-level strategy (better manage individual trust funds)

In order to achieve a more effective and efficient engagement on the level of each individual TF, Germany should prioritize to overcome the lack of centralized information on World Bank TFs and institutional history of all German institutions.

First and foremost, all information on existing TFs must be gathered, preferably at division 411 of BMZ. This is a necessary step to initiate an overarching internal dialogue and to monitor key indicators such as portfolio fragmentation. If this is not possible, we recommend to at least involve BMZ division 411 more systematically in the information flow in order to enable it to better respond to German TF managers' needs.

In addition, we recommend to compile a handbook for German TF managers that provides general TF information (e.g., description of different types) and that informs the TF manager about "do's and don'ts" when joining and managing a TF.[93] Such micro-level guidance would be an important complement to the macro-level oversight and coordination headed by division 411. We would also recommend to inform German TF managers specifically about their "bargaining space" when **setting up a TF**. First of all, the managers should be informed about standard AAs and the negotiable parts (see table 2 in chapter 2.4). More importantly, however, the managers should learn about (in)formal options in coordinating with World Bank teams in order to achieve good results.

In the following, as opposed to the formal options in table 2, we discuss the key aspects that we have identified as effective practices in dealing with the World Bank side.

a. Governing bodies: As described in chapter 2, there are different governance structures depending on the type of TF. TF Managers should be aware of the typical tasks of the bodies of the multi-tier governance structures in order to make an informed choice about which structure they want to advocate. The more expertise and personnel resources are available, the more Germany can push to be part of the Technical Committee (or the body that is responsible for

[93] However, the handbook would not cover TC and FC specific procedural guidelines as it is more efficient if these are directly provided by GIZ and KfW to their employees.

the work plan). It is also important to know that the governance structures have different cost implications. The more tiers, the more costly, and thus the higher the administration fee. For example, in order to facilitate participation of all donors in a Technical Committee, more preparation from the World Bank side will be necessary and travel costs will increase.

b. Payment schedule: Payment in full ensures quick disbursement, enabling the World Bank to immediately use the funds if there is demand from program countries. It also reduces transaction costs. On the other hand, a split into several tranches follows the idea of just-in-time provision of funds for specific purposes and leaves the donor with some leverage over the yet undisbursed tranches.

c. Management fee: As described above, the management fee varies with the governance structure. The administration fee is fixed according to the standard rules. Although the fee varies considerably among the different German TF contributions, there is no flexibility from the World Bank side. As part of the reform agenda fees will be further streamlined. However, already now (with a differentiated fee structure) it is not useful to negotiate about the fee.

d. Reporting: This is an important tool for the German side to be properly informed and to be able to inform others. Formally, timing and frequency of reporting is only negotiable to a limited extend. Also, the overall structure of reports is usually given. It is however possible to ask for specific content in a sub-chapter or in informal, personal communication.

e. Results framework: This is equally an important tool for the German side. It will very likely not be possible to make it part of the AA. However, it will be possible to claim it (if it is not existent at all). Normally, it is not possible to co-create the framework, but it is possible to review and comment on it. See chapter 5.4 for strategic recommendations to make the RF more binding.

f. Audits and evaluations: Audits and evaluations are very standardized and it will only be possible to negotiate changes if the donor bears the costs. However, we did not come across any problems related to audits and evaluations and would recommend that the German side accepts the World Bank standards.

There are some additional aspects that may facilitate the management of TFs during their implementation phase:

g. Communication: Both sides should aim at increasing direct interaction on all levels (TF level, board and council meetings). In addition, we recommend increasing also informal communication as this is useful to tackle issues on which the AA does not leave room for negotiation. Informal communication is also necessary to set the agenda in TF governing bodies.

h. Coordination with other donors: Seeking strategic alliances with other donors can help strengthen the own position. This will be helpful to push through certain topics in Steering Committee meetings for which Germany would otherwise not have sufficient clout (e.g. because of a small contribution amount).

i. Role of GEDO: Usually, TF Management should be the responsibility of BMZ in conjunction with GIZ or by KfW. GEDO will normally not be involved, but should be kept informed about the German engagement. GEDO itself sees its role more in helping with trouble shooting and in supporting the normal ongoing policy dialogue and conveying perspectives of other donors and the World Bank on specific topics (could potentially increase bargaining power).

j. Allocation of resources: As described earlier, the contribution amount has some influence on how much voice a donor gets. However, it is important to have sufficient resources to be able to follow-up on the TF developments, to use them for agenda-setting or to make sure they are coherent with bilateral aid (implementing TFs). Therefore, sufficient time-commitment should be ensured throughout the whole TF life cycle.

In addition to these policy-level recommendations, there are a few technical aspects that can also increase the efficiency of the German TF engagement. These aspects relate primarily to the Client Connection database and should be raised by division 411 with CFPTO.

- Match project numbers of German agencies and TF numbers at the World Bank in the Client

Connection database to make it easier to identify the respective TFs;
- Ask the World Bank to improve the usability of the Client Connection database (e.g., indicate in the main list which German institution is contribution partner).

5.3 Proposal for a trust fund reform agenda position

Germany is not only a donor to IDA and TFs, but also a shareholder of the World Bank. This donor-shareholder duality applies to every OECD/DAC country. As an important shareholder of the World Bank, Germany must play an active role in the TF reform debate that will shape the future set-up of the organization. It is in the interest of the shareholder to reduce any burden that may arise from special needs or wishes by donors. On the other hand, the donor has an interest to see its interests represented. Since Germany has gradually increased its engagement in TFs at the World Bank, as a donor it should have an interest in TF policies that reflect German development priorities. Box 8 summarizes the current German position on TF reforms, which is based on an internal document of the BMZ.[94]

The World Bank has structured its reform agenda along four distinct pillars (see chapter 2.5). Each of those pillars is relevant for making TFs an integral part of the World Bank. However, pillar 2 (budget integration and business process alignment of TFs) as well as pillar 4 (senior oversight) mainly reflect areas in which the World Bank must extend the scope of its own operational rules to TFs. Those pillars thus do not necessarily need active involvement of donors. Accordingly, our focus is on the two remaining pillars, pillar 1 (alignment) and pillar 3 (cost recovery). For both pillars, we describe in the following section how Germany is affected in its capacity as shareholder and donor, and how it can develop a consolidated position based on its current TF reform position (see box 8) and its experience to date. Thus, albeit limited in scope, our proposal for a TF reform position addresses the most critical areas around which future debates will most likely evolve.

Box 8: The current German position on trust fund reforms

Germany supports the TF reform process while expecting further clarification on selected issues from the World Bank. German priorities on alignment are as follows:

- Selectivity in establishing TFs while further consolidating the existing TF portfolio;
- Support of UFs, provided that they offer sufficient flexibility to donors, for example by sub-thematic windows;
- More clarity on the future criteria on which the World Bank bases its acceptance of TFs. In particular, selectivity could be based on a quantifiable measure of fragmentation, complemented by the key requirement of sustainable development.

In addition, Germany has formulated the following positions on the principles of oversight, transparency, and cost effectiveness:

- Internal control environment: Welcomes the past reforms to better integrate TFs into the overall budget, to enhance senior control over TFs, and to apply core operational procedures to TFs, given that TFs have evolved into a mainstream instrument of funding;
- External reporting standards: Pushes for widely accessible RFs to be included in the AAs or equivalently anchored in the documentation, flanked by annual consultations with donors;
- Supports simplification efforts on fee structures and incentives for larger TF contributions.

Source: BMZ (2013b).

[94] BMZ (2013b).

5.3.1 Alignment

The World Bank seeks to align TFs with its core agenda. Alignment is not an end in itself, but rather a means to ensure the long-term viability of the World Bank by maintaining its focus on core issues and limiting its scope of activities. Alignment also promises to reduce fragmentation, notably through standardizing governance agreements and streamlining World Bank-internal operational procedures. Germany is affected by the reforms in the area of alignment because it is a donor to the UFGE, which is a testing laboratory for umbrellas in general. Moreover, Germany may need to develop a position on alignment because World Bank management has identified this issue as a key priority in the reform process.

On the one hand, **Germany as a shareholder** supports increased alignment, because it enables the World Bank to fulfill its core mandates. Acknowledging the specific needs of other donors, Germany argues in favor of a balance between the rigid approach through UFs and the flexible approach through TFs, possibly moving towards applying Umbrella Principles (see box 4). Indeed, if UFs are too rigid in that they do not even allow for soft earmarking, individual donors may reject them altogether and either pursue SDTFs or turn to other MAIs with more lenient rules. Moreover, the sector focus of UFs tends to neglect the partner country perspective. The World Bank has recently proposed country umbrellas, for example for Myanmar, to address this challenge.

On the other hand, **Germany as a donor** has an interest in opportunities for soft earmarking as well as strategic participation. First of all, Germany favors soft earmarking through windows in UFs. This would provide Germany with enough flexibility to support specific sub-themes under a broad umbrella. However, Germany may not want to vet individual project proposals because of limited processing capacities on its own. Secondly, German stakeholders have expressed their desire to actively participate in UFs, including the possibilities to co-determine the work plan of UFs. This somewhat contrasts with current practice where the relevant Sector Board has a veto right in that it can refuse to implement priorities collectively agreed by donors in the boards of UFs.

As part of a consolidated reform position, Germany should take the following position:

- Support soft earmarking through windows in UFs, and lever its influence to ensure strategic participation in UFs;
- Oppose proposals allowing micro-management on the part of donors;
- Convince the World Bank that donors should obtain a veto right vis-à-vis the Sector Board;
- Promote county-UFs or comparable instruments as a means to ensure partner orientation and leeway for country-specific activities;
- Be mindful that the tension between alignment and creativity is adequately balanced, creating awareness that there can be “good fragmentation” if it benefits partner countries.

Another issue related to alignment refers to RFs. This is of particular interest for German stakeholders because German aid is focused on effectiveness and impact.

In supporting the position of the World Bank**, Germany as a shareholder** wants to avoid too much burden for the World Bank in terms of reporting. Donors are too impatient, while the World Bank is able to report on results only after three years when individual trust-funded projects are completed. The pressure for immediate results is unhealthy because it forces the World Bank to focus on outputs rather than outcomes, which are more relevant to assess development impact.

Yet, on the issue of Results Frameworks, **Germany takes the perspective of the donor**. Accordingly, German agencies prefer formal commitments over informal agreements. Unlike the World Bank, Germany wishes to formalize RFs in the relevant AAs.

As part of a consolidated reform position, Germany should

- Be adamant to include a reference on a RF in the respective AAs (without necessarily developing it in the AAs);
- Insist on transparency of RFs and support the establishment of common procedures to adapt such frameworks if necessary;
- Find ways to ensure sufficient resources for the World Bank to cover its costs due to the results focus of TFs (this is easier in UFs, which endure individual TFs as they sustain a secretariat for monitoring and evaluation of completed projects).

A final issue on alignment pertains to standardized governance clauses. The World Bank seeks to formalize its relationships with donors and thereby increase the hurdles for tailored agreements, which affects German contributions in selected areas.

Germany as a shareholder supports the World Bank in its move towards light governance that limits donor influence. **Germany as a donor** may support this position as it is not as much adversely affected as other donors in terms of their preferences for earmarking. However, more clarity would be required on what “light governance” actually means and what it implies in terms of actual participation options for TFs.

5.3.2 Efficiency and costs

Under the third reform pillar, the World Bank seeks to increase efficiency and to reduce costs of managing TFs. This pillar is relevant for Germany because its current allocation profile to TFs may pose too high transaction costs on the World Bank for two reasons. First, while Germany contributes to only a low number of TFs, many of its contributions are relatively small, which raises the issue of size fragmentation. Second, the German development system involves a high number of actors, thereby increasing institutional fragmentation.

As a shareholder, Germany urges the World Bank to evaluate fragmentation, particularly through a quantifiable measure of fragmentation. Such a measure could help identify the extent of fragmentation due to TFs in specific sectors and thereby help guide the roadmap for further consolidation at the World Bank. In general, Germany supports measures aimed at reducing transaction costs for the World Bank. This may include minimum size requirements, both to establish TFs and to contribute to existing TFs. Moreover, collective fundraising (both with other donors and among German agencies) could help reduce fragmentation and ad-hoc fundraising, while enhancing better knowledge transfer.

As a donor, Germany has a more nuanced picture on fragmentation, acknowledging that there may be “good fragmentation” if TFs advance partner-country priorities and that different types of TFs have different potential for fragmentation.[95] For example, MDTFs allow for pooling and risk-sharing, and they may even supersede bilateral efforts. In contrast, SDTFs, especially if they go beyond mere co-financing, increase fragmentation. With regard to thresholds, German agencies expressed their wish to participate in specific TFs irrespective of their size of contribution, arguing that the time devoted to the trust-funded program might be more important for overall success than money alone. Thresholds are also an obstacle because Germany may only have a limited budget reserved for TFs (through the FiT title). In addition, German agencies are opposed to centralized fundraising as this deprives them of the flexibility and spontaneity in cooperating with the World Bank, which precisely reflects a comparative advantage of TFs over alternative funding mechanisms.

As part of a consolidated position, Germany should

- Achieve a compromise with the World Bank and other donors to establish a cumulative threshold for MDTFs (at the parent level of MDTFs) while abstaining from any threshold for individual contributions to MDTFs – particularly country level MDTFs as opposed to programs;
- Find an adequate balance between efficiency (e.g., collective fundraising) and flexibility (e.g., decentralized fundraising by German implementing agencies) in the frequency of fundraising, given agreement on collective fundraising (e.g., semi-annual replenishment is preferable over annual fundraising) bearing in mind the German institutional structure and related requirements on fiscal years.

Aside from a substantive reform position, Germany may shape the reform agenda by more active engagement. Accompanying the reform agenda falls under the responsibility of the BMZ World Bank division (411). There are multiple forums in which Germany could assume a more active role, including the Donor Forum, Donor Consultations, and Thematic Groups.

To enable Germany to pursue its reform priorities more effectively, it should

- Become aware of its own engagement policy, especially in terms of priority themes and underlying instruments to be used;
- Actively participate in the Donor Forum as a high-level forum for strategic dialogue on World Bank policies, while at the same time,

[95] Barakat (2009), Guder (2009), Thalwitz (2013).

Germany should work in relevant thematic groups (for example on the results budget process);
- Deduce a TF reform position that supports those priorities, balancing the donor perspective and the shareholder perspective and cooperating with like-minded donors;
- Shape specific issues of key interest in the TF reform agenda, for example UFs.

Furthermore, being part of the strategic dialogue certainly requires human resource capacities, but also better division of labor and coordination among German aid agencies.

Table 8: Summary recommendations for a German position on the trust fund reform agenda

Issue	Shareholder View	Donor View	Recommendations
Pillar I			
Umbrella Facilities	Greater alignment welcomed, but UFs too rigid and risk of losing partner-country focus	Flexibility to support subthemes as well as opportunities for participation desirable	Find balance between alignment and flexibility; explore possibility of country umbrellas
Results frameworks (RFs)	Aid effectiveness is important, but avoid too much burden on the World Bank	Formal commitment to RFs in the AA desired	Include reference on RF in AA; insist on transparency; cover future costs to monitor results
Pillar III			
Cost recovery and efficiency	Fragmentation is bad, but must be quantified to guide selectivity; incentives to reduce the proliferation of TFs, collective fundraising and other procedures	"Good fragmentation" if it benefits recipient countries; centralized fundraising reduces flexibility; thresholds may be arbitrary	Find compromise on thresholds; find a balance between flexibility and standardization on fundraising

Source: joyn-coop.

6 Conclusion and outlook

In this study, we have analyzed the German IBRD/IDA TF portfolio at the World Bank as well as German experiences with TF engagements at the World Bank. The German portfolio has grown dynamically over the last years, albeit from a small level. Given its strong advocacy for an efficient multilateral system not plagued by duplication and aid fragmentation, Germany felt that it should gain a more comprehensive overview of its current TF portfolio and its own engagement policies before taking a stance on the ongoing reform debates. Moreover, TFs as a means to channel targeted development assistance and to shape multilateral priorities will grow in their overall importance in the multilateral aid architecture. Our findings focus on four areas.

First, we analyzed the German portfolio with regard to German development priorities and in comparison to the overall TF portfolio at the Bank. We found that the German portfolio covers nearly all main topics, with a focus on areas such as climate change, education, and fragile states. Yet, apart from those mentioned, it remains relatively small in many of the topics in terms of contribution amounts. In addition, Germany has a strong focus on TFs that typically support interventions at the country level or regional priorities, whereas in terms of amounts, Germany is rather under-represented in TFs aimed at creating knowledge and disseminating new approaches for development.

Fragmentation has been a particular area of interest against which we assessed the German portfolio. We found that fragmentation is rather low, at least in terms of the number of TFs (and especially SDTFs). Moreover, the few dormant funds in the German portfolio are being dissolved by the World Bank in the near future. However, fragmentation is high in terms of the broad range of themes supported through relatively small contributions. We therefore think that a more strategic allocation based on a coordinated approach among the German development institutions, to be pursued in the future, will help mitigate the risk of fragmentation and its adverse consequences.

Second, with respect to the overarching engagement in TFs, German stakeholders perceived a lack of oversight and high-level guidance. Our analysis revealed that funding decisions are based on independent decisions of the individual sector and regional units within BMZ, rather than being shaped by an ex-ante allocation strategy. We therefore have recommended a collective decision-making process on TF engagements among the official German aid institutions. In addition, Germany should overcome the lack of centralized information on World Bank TFs and institutional history of all German actors.

Third, once the focus areas of TF support are determined, German stakeholders should bear in mind the good practices of TF management. The evidence shows that Germany is more likely to shape the agenda if it makes a significant commitment in terms of both money and human resources, and if it coordinates with other donors. In particular, German stakeholders should not only participate in Steering Committees but also actively use informal forums as arenas of consensus formation.

Fourth, Germany should also become an even more vocal shareholder in the ongoing TF reform process at the World Bank. Key areas of the debate focus on the issue of alignment of TFs with the core agenda and cost recovery. As regards alignment, Germany, in consultation with other donors, must balance the need for alignment with the desire for flexibility. It should ask the Bank to further explore the possibility of country umbrellas in order to increase partner-country focus. In terms of cost effectiveness, Germany should support measures to enhance cost recovery, while being aware of the challenges of further standardization, for example on collective fundraising. Germany should also continue to promote RFs, possibly through a reference in the AAs.

Germany is an important shareholder of IBRD/IDA based on its core contributions. Core resources - the capital shares at IBRD and the non-earmarked voluntary contributions to IDA - are important to enable the World Bank to fulfill its mandate. This especially applies to long-term activities that transcend the immediate horizon of development projects. For example, measuring impact in the aftermath of projects requires sustainable institutional structures to collect the necessary data and to disseminate knowledge long after individual projects and even programs close. Hence, donors and the World Bank must carefully monitor the further evolution of TFs in relation to core funding. Donors should agree on maintaining an adequate balance between both types of funding, which gives them flexibility while not compromising the ability of the Bank to deliver high-quality development aid. Donors are in the driver seat in their capacity as shareholders at the Executive Board to set the right incentives for TFs being used for the right purposes. They also have the opportunity to push topics in IDA replenishments through thematic windows.

The TF reform is also interlinked with the corporate reform of the World Bank. While the traditional matrix structure consisting of regions and networks will evolve into a set of global practices, the exact parameters of the reform are still unclear. Against this background, it can only be speculated how the structure of TFs and their day-to-day management will be affected. Once the actual outcomes of the overall reform become apparent, the German TF agenda should be put in this context and nuances reconsidered.

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Annex

Annex 1: List of interviewees

Name	Affiliation	Position & Unit	Topic	Date of Interview
Abundo, Maria Lourdes	World Bank	Program Officer, PREM Network	Case Study UFGE, PSIA	23.10.13
Boukerche, Sandrine	World Bank	Carbon Finance Analyst, Carbon Finance Unit	Case Study CDCF	23.10.13
Bowyer-Walker, Nicolette	World Bank	Operations Advisor, SARDE	Case Study Bangladesh HSDP	23.10.13
Brinkhaus, Michaela	BMZ	Officer for Primary Education, Division 201 - Education	Case Study Education for All	09.10.13
Christensen, Olav Rex	World Bank	Senior Public Finance Specialist, Education Human Development Network	Case Study Education for All	22.10.13
Costa, Valerie de	World Bank	Program Manager, infoDev	TF Infodev	22.10.13
Dengg, Dr. Sören	BMZ	Head of Division, Division 411 - World Bank; IMF; Debt Issues	Strategy	07.11.13
Diekmann, Michèle	KfW	Senior Manager Policy and Communication, Key account for World Bank	Strategy	16.10.13
Djutovic-Alivodic, Sabina	World Bank	Operations Analyst, CFPTO	Strategy	23.09.13 22.10.13
Dofel, Sook-Jung	GIZ	Project Leader Strengthening Public Financial and Economic Management in Malawi	Additional Short Case Study Malawi	11.10.13
Dorasil, Susanne	BMZ	Head of Division, Division 112 - Economic policy Finance	Additional Short Case Study FIRST	10.10.13
Engel, Albert	GIZ	Deputy Director General, Sectoral Department	Strategy	10.10.13
Fass-Metz, Frank	BMZ	Head of Division, Division 312 - Climate policy and Climate Financing	Case Study FCPF	16.10.13
Folz, Dr. Rachel	BMZ	Desk Officer, Division 410 - Mult. Development policy; G7/G8/G20	Strategy	20.09.13
Goltz, Nicolaus von der	World Bank	Senior Operations Officer, Knowledge for Operations	Strategy	23.10.13
Gürtner, Sabine	GIZ	Head of Program, Gender Equality and Women Rights, Division Good Governance and Human Rights	Case-Study UFGE	04.11.13
Haase, Sven	BMZ	Assistant Desk Officer, Division 313 - Water, Energy, Urban Development, Geoscience sector	Case-Study ESMAP	09.10.13

Name	Affiliation	Position & Unit	Topic	Date of Interview
Hamacher, Winfried	GIZ	Head of Agency, GIZ Zimbabwe	Short Case Study Zimbabwe	07.10.13
Haupt, Ulrike	BMZ	Head of Division, Division 311 - Environment and sustainable use of natural resources	Case Study FCPF	09.10.13
Hoven, Ingrid	World Bank	Executive Director, GEDO	Strategy GEDO	24.10.13
Hustädt, Ernst	GIZ	Head of Division, Division Contracting, Procurement, Logistic	Strategy, Financial issues	25.09.13
Illi, Holger	World Bank	Senior Partnership Specialist, CFPTO	Strategy	24.10.13
Kasmann, Elke	GIZ	Project Leader, Division of Health, Education and Social Protection	Case Study PSIA	25.09.13
Kästle, Kathrin	KfW	Project Manager, Sector and Policy Division Peace and Security	Case Study TDRP	23.10.13
Khanna, Rohit	World Bank	Program Manager, ESMAP	Case Study ESMAP	23.10.13
Kirky-Zaki, Jane	World Bank	Senior Program Officer, CFPTO	Governance Questions	24.10.13
Klingberg, Michael	BMZ	Desk Officer, Division 411 - World Bank; IMF; debt issues	Strategy, Budgetary Questions	19.09.13
Knauder, Katrin	KfW	External Expert, Sector and Policy Division Peace and Security	Strategy	16.10.13
Koch, Michael	World Bank	Director, CFPTO	Strategy, TF-Reform	25.09.13
Koppers, Dr. Simon	BMZ	Head of Division, Division 416 - United Nations	Strategy, Budgetary questions	02.10.13
Körberlein, Michael	BMZ	Desk Officer, Division 313 - Water, Energy, Urban Development, Geoscience sector	Case Study ESMAP	09.10.13
Kroppen, Friedrich	BMZ	Desk Officer, Division 416 - United Nations	Budgetary Questions	11.11.13
Kruse-Tietz, Lydia	World Bank	TF Coordinator, Partnership Advisor, SDN	Case Study ESMAP and FCPF	24.10.13
Lee, Henna	World Bank	Resource Management Analyst, InfoDev	InfoDev	22.10.13

Name	Affilia-tion	Position & Unit	Topic	Date of Interview
Liché, Berthold	KfW	Senior Project Manager, Sector Division Health and Social Security	HDSP	14.10.13
Lynch, Catherine	World Bank	Urban Economist, Urban Development and Resilience Unit	Case Study PforR	24.10.13
Markov, Andrei	World Bank	Senior Partnership Specialist, CFTPO	German TF portfolio, TF reform agenda	22.10.13
Möhring, Ute	BMZ	Desk Officer, Division 204 - Human rights; gender equality; culture and development	Case Study UFGE	09.10.13
Narayan, Ambar	World Bank	Lead Economist, PREM	Case Study PSIA	22.10.13
Nedolast, Sarah	World Bank	Senior Program Coordinator, Gender and Development	Case Study UFGE	23.10.13 08.11.13
Nkole, Helena	World Bank	Senior Operations Officer, CFPTO	Results Framework	23.10.13
Palm, Reinhard	BMZ	Deputy Head of Division, Division 411 - World Bank; IMF; debt issues	Strategy	19.09.13
Paqué, Heike	BMZ	Desk Officer, Division 201 - Education	Case Study EFA	09.10.13
Pardo, Maria Lourdes	World Bank	Senior Counsel, LEGCF	Legal issues	24.10.13
Ressel, Dr. Gerhard	BMZ	Deputy Head of Division, Division 113 - Employment	TF Job mar-kets	19.11.13
Röckel, Katja	GIZ	Head of Sector Project Development Eco-nomics, Division Economics and Employment	Case Study PSIA, PforR	04.10.13
Schmitt, Dr. Sylvia	GIZ	Advisor Sector Program Education Division Education, Health and Social Protection	Case Study EFA	04.10.13
Schreiner, Gregor	GIZ	Head of Division, Division Finance Manage-ment, Consulting and Training	Financial is-sues	26.09.13
Schütt, Niels	BMZ	Desk Officer, Division 411 - World Bank Group; IMF, debt relief	Case Study PSIA, PforR	27.09.13
Stavrou, Stavros (Aki)	World Bank	Senior Conflict & Development Specialist, TDRP	Case Study TF TDRP-South Sudan	22.10.13
Steckhan, Uwe	World Bank	Senior Operations Officer, Office of the Partnership Advisor	Case Study ESMAP and CARBON	24.10.13
Steinke, Marita	BMZ	Head of Division, Division 204 - Human rights; gender equality; culture and development	Case Study FCPF	09.10.13
Stensland, Heidi	World Bank	Operations Officer, Donor Focal Point for Germany, CFPTO	Strategy Ger-man TF port-folio	26.09.13 22.10.13 24.10.13

Name	Affilia-tion	Position & Unit	Topic	Date of Interview
Stiegler, Dr. Ursula	GIZ	Advisor, Division Economics and Employment	Case Study PSIA, PforR	04.10.13
Sydygalieva, Bermet	World Bank	TF Coordinator, Human Development Network	Case Study EFA	22.10.13
Uhlenkamp, Bowen	World Bank	Operations Officer, CFPTO	Strategy	24.10.13
Vinuya, Ferdinand	World Bank	Operations Officer, CFPTO	German TF portfolio, TF reform agenda	21.10.13 24.10.13
Whitehouse, Simon	World Bank	Acting Partnership Coordinator FCPF, Carbon Finance Unit	Case Study FCPF	23.10.13
Wyrwinski, Ralf	BMZ	Desk Officer, Division 203 - Human rights, gender equality, culture and development	Case Study UFGE	09.10.13
Zattler, Dr. Jürgen	BMZ	Deputy Director General, Directorate 41 – European and multilateral development policy	Strategy	07.11.13
Zechter, Richard H.	World Bank	Coordinator Carbon Partnership Facility, Carbon Finance Unit	TF CDCF	23.10.13

Annex 2: Analysis of German Administrative Agreements

This document presents our analysis of Administrative Agreements (AAs) on TFs at the World Bank. Following the typical structure of such AAs, this annex consists of three sections. Section 1 summarizes the program criteria and eligible expenditures, section 2 addresses standard management provisions on TFs, and section 3 describes governance structures.

Our analysis is based on the standard template for new AAs, effective since FY12, as well as the full set of German AAs with the World Bank. For identical provisions across AAs, we infer that those provisions are generally not negotiable. Conversely, variable elements are subject to negotiation, which include eligible expenditures, fees, and governance issues.

1. Program criteria

Types of activities

Types of activities depend on the purpose of the TF. AAs typically enlist recipient-executed activities as well as Bank-executed activities. Bank-executed activities may either benefit program activities or cover Secretariat costs of the TF.

A commonality for the activities supported through a TF is that World Bank rules apply with regard to procurement, including the hiring of staff. Without exception, IBRD/IDA rules must be followed. The World Bank stipulates that none of the functions performed in relation to the TF constitute a waiver to its Articles of Agreement, and that IBRD/IDA rules govern TF management.

Not all expenditure can be charged against a TF. Key distinctions can be made along both the type of expenditures as well as their timing. Usually, TFs may cover activities conducted **after** the AA has come into effect. An exception is the SDTF on ESMAP, whose AA provides for the possibility of **retrospective financing** (with an explicit date being specified in the AA). As regards the type of expenditures, there is variation with respect to both RETFs and BETFs.

For recipient-executed activities, eligible expenditure is closely related to the objectives of the program, for example purchase of equipment.

For Bank-executed activities, eligible expenditure may include

- direct costs for regular staff;
- indirect costs for regular staff and associated overheads;
- field assignment benefits;
- consultant fees;
- contractual services;
- travel costs, conferences, workshops, and meetings;
- direct costs for temporary support staff, temporary staff, and extended-term consultants;
- indirect costs for those staff categories.

The list of eligible World Bank expenditures varies across AAs. In particular, it may not be possible to charge staff costs for temporary staff. This has led TF managers to not hire temporary staff but rather to buy in external expertise through contracts. This is considered inefficient practice due to additional paperwork and the problem that external consultants may not be subject to Bank-internal rules. Other AAs distinguish between regular staff and temporary staff: While indirect costs for regular staff is still eligible, such costs cannot be charged in case of co-terminous appointees (the co-terminous status, however, has been abolished as of FY13).[96] Yet, the most restrictive AAs do not allow staff to charge working time against the TF at all.

Program criteria

As an optional element, the World Bank and the donor may agree that activities are financed in accordance with a set of pre-defined program criteria. This also includes conditional contributions. It rarely occurs that the donor conditions the payment schedule upon achievement of certain objectives; an exception is PSIA, whose AA states concrete measures to verify TF progress together with the clause that future payments depend on their level of achievement.

[96] The co-terminous status was a former staff category until June 30, 2013. It referred to staff members exclusively hired for trust-funded activities.

Another example of conditioning is the matching requirement in the PforR TF. Regional units must provide own funding at least as high as the respective grant from PforR. It could be argued whether this is not a World Bank-internal provision, but the fact that it occurred in the AA indicates a bargaining space for donors.

2. Standard provisions

Administration of contributions

The World Bank manages all contributions in US Dollars, the holding currency of the TF (however, the contribution amount in the AA may be noted in EUR). This implies that the World Bank also produces its financial reports on TFs in US Dollars. Anecdotal evidence shows that some donors have required reporting in their own currency, for example the European Commission (EC).

Without exception, contributions to a specific TF may be commingled with other TFs. However, TFs as a whole are separated from the core budget of the World Bank. The World Bank maintains separate records for each donor. In case of a multi-donor TF, there is only a single fund into which donor contributions are pooled. This also implies that the World Bank reinvests any interest earned in a multi-donor TF into the program.

Sometimes, the World Bank has agreed on special provisions with individual donors, which has resulted in SDTFs. This is because some donors could otherwise not have contributed to a TF due to their own domestic legal restrictions. For example, US laws require anti-terrorism screening when the World Bank sub-contracts third-party implementers, which may go beyond IBRD/IDA requirements. Also, EC rules do not allow financing taxes from donor contributions, which is inconsistent with a standard World Bank provision.[97]

Fees and costs

The World Bank offers two fee arrangements for TFs, standardized fees and customized fees. Standardized fees apply in the case of MDTFs. The standard fee arrangement consists of a USD 35,000 set-up fee and a five percent administrative fee that is deducted from each contribution (WB 2012 Handbook: 18). Possible deviations from this standard arrangement must be collectively negotiated and apply to all donors equally. Customized fees are used for all other TFs and notably SDTFs, based on the principle of full cost recovery. The proportional fee deducted from each TF contribution may vary a lot across AAs. However, to ensure cost recovery, customized agreements entail a second fee pillar based on actual costs. This second fee element is typically ceiled, either by a total amount (e.g., USD 1,412,168 in the case of ESMAP-MDTF) or by a percentage share (e.g., 3.8 percent of total contributions in the BHSDP). In some cases, certain types of expenditures are restricted, as for example in the PSIA-MDTF, which limits Bank-executed expenditures to 20 percent.

Financial reporting

The World Bank provides financial information to donors through the Client Connection database. Within six months after closure of the TF, the World Bank furnishes a financial statement on receipts, disbursements, and fund balances. Within six months of the end of each World Bank fiscal year, the World Bank must provide an annual single audit report, which comprises a management assertion together with an external audit report on the adequacy of internal control over financial reporting and a financial statement for the TFs. The costs for the single audit are to be borne by the World Bank. Donors may obtain additional audits at their own cost, provided that donors and the World Bank have agreed on the necessity on such audits in prior consultations.

Progress reporting

The World Bank provides donors with annual progress reports on the progress of trust-funded activities, and a final report following six months after the closure of the TF. The frequency at which the World Bank provides progress reports is subject to negotiation. The standard provision is annual reporting, but reports may be due every six months or even every three months upon request. Any donor may evaluate activities at its own cost at any time up to six months following the end date of the TF, given agreement between the World Bank and the donor on the scope of such a review.

Disbursement – cancellation – refund

The TF instrument terminates at the end date stipulated in the AA or when the TF is fully depleted,

[97] If a recipient purchases services, the donor typically finances any value-added taxes on these services. Some donors, for example the EC, have excluded the financing of taxes.

whichever of the two dates is earlier. In case the TF still possesses undisbursed resources after the closure data, the World Bank must seek approval from the donors if it wishes to disburse those funds on program activities.

In terms of cancellation policies, both the World Bank and the donor may cancel the TF agreement upon three months prior written notification. The cancellation only applies to undisbursed funds, which allows the World Bank to fulfill its contractual commitments it entered based on the expectation that funds will be available.

In case of single-donor funds, the AA specifies how any remaining balance will be used. In case of multi-donor TFs, donors receive their pro-rata share of undisbursed funds.

Amendments to the AA including its annexes require an agreement between the World Bank and the donor. In case of multi-donor TFs, which are constituted by a set of AAs between each individual donor and the World Bank, all donors must consent to a change in a single AA.

3. Governance structures

Governance models vary across TFs, according to the purposes of the underlying programs. Donors and the World Bank may agree on one-tier TFs, two-tier TFs, and three-tier TFs. A one-tier TF is the simplest arrangement that merely co-finances project components. The implementing World Bank unit also manages the TF contribution. A two-tier TF consists of a Secretariat and a Steering Committee, comprised by donor representatives and typically World Bank representatives. A three-layer structure would add to this a management committee among implementing agencies, which would only be appropriate for broad partnerships.

The Steering Committee, which meets at least annually, often delegates certain functions to a TF Technical Committee that reviews project proposals and assists the Steering Committee in its day-to-day work. Donors may negotiate to participate in the Technical Committee (as they did in the Governance Partnership Facility) and thereby obtain decision-making power on project allocation. This would obviously make sense if they had specific sector expertise.

Annex 3: A glance at the trust fund strategies of other donors

1. United Kingdom

1.1 Engagement strategy

There are three main reasons for the United Kingdom through its Department for International Development (DFID) to engage in TFs at the World Bank. First, TFs enable DFID to deliver where it lacks capacity on its own,[98] or to complement existing bilateral activities.[99] TFs are an appropriate instrument where other procurement channels are forestalled. Second, the World Bank is able to deliver "value for money", as reflect in its good ratings in a 2011 DFID evaluation on multilateral institutions. It has credibility with governments and uses its entrusted resources in a cost-effective way. Third, TFs provide a space for a range of donors on shared priorities, such as fragile states, good governance, poverty reduction, and public health. Beyond those general motives, DFID has sometimes used TFs as a flexible instrument to meet its spending targets.

DFID uses a broad range of TF mechanisms that reflect its bilateral aid priorities. It is the largest donor of IBRD/IDA TFs to the World Bank. Together with IFC TFs, IBRD/IDA TFs constitute about 70 percent of its portfolio, only 30 percent are FIFs. British support within the IBRD/IDA TFs focuses on co-financing and country-specific RETFs, mainly in its bilateral focus countries in Africa (e.g., Ethiopia, Kenya, and Uganda), and South-East Asia (e.g. Cambodia, Indonesia, and Vietnam). In addition, UK uses BETFs to catalyze novel approaches in good governance (e.g., GPF), security and justice (e.g., GRSF), health (e.g., PFED). DFID has a strong focus on results, which includes impact evaluation and results measurement (e.g., GPOBA and SRTF). DFID scores average on its balance between MDTFs and SDTFs, using SDTFs only where it seeks to pilot innovative issues or where it assists a specific country through co-financing activities. DFID is a founding donor of many TFs, crowding in other donors later on.

DFID is the central agency for official UK development aid. It is a large institution with wide-spread country presence but implementation constraints and thus relies on consultants for aid implementation. Country teams and sector teams at headquarters manage their own budgets for which they seek the most efficient delivery channels. Based on this decentralized allocation modality, the UK argues that TFs do not compete with IDA.[100] Since the financial crisis, the UK has massively cut social spending at home while ring-fencing the foreign aid budget. This increases pressure to show tangible results in development cooperation. In its TFs, DFID has been pushing for results frameworks, while seeking more operational involvement as well. DFID is very clear on what it expects its TFs to do. For example, it agrees upfront on reporting standards.[101] In some cases, DFID maintains an explicit stake in project selection through its membership in the Steering Committee (e.g., GPF and GPSA), while in other cases it is understood that World Bank teams try to accommodate specific priorities of DFID when preparing pilot studies (e.g., PFED, GPOBA, or SRTF). Recently, however, the World Bank turned down requests to focus assistance on Nigeria,[102] or on the 37 DFID priority countries in the CAF-TF.[103] While World Bank staff acknowledges that its emphasis on results makes the World Bank itself more effective in its aid programs, DFID sometimes asks for results at a level of detail that World Bank systems are unable to capture. This strong results focus has already frightened off others to join multi-donor initiatives in which the UK plays a major role (e.g., Belgium did not join the GPF). In addition, some TFs by DFID foresee co-execution, which entails secondment of consultants and joint missions with local DFID staff. Our own survey evidence shows that DFID only uses this option where it has relevant expertise by country or theme (e.g., GAFSP and SRTF). Day-to-day interaction between DFID and the World Bank can be intense, but it is perceived as valuable by World Bank staff, given the local contacts, expertise, and experience of DFID staff.[104]

[98] Interview with ED office.

[99] IEG (2011): 6.

[100] Interviews with ED office and DEC staff member.

[101] Interviews with ED office and HDN staff member.

[102] Interviews at CFPTO.

[103] Interview with GEDO.

[104] Interview with HDN staff member.

1.2 Trust fund reform process priorities

DFID says that TF reforms must be consistent with its priorities as a donor and its interests as shareholder of the World Bank. TFs are most appropriate where they imply added value, and the rules governing TFs should reflect their purpose as a time-delimited instrument. DFID therefore strongly supports sunset clauses, results frameworks, and the overall consolidation of its TF portfolio. Along with the ED office, DFID local offices are more skeptical of umbrella facilities. UFs neither provide enough flexibility for specific actions and tailored results, nor do they have an end date and thereby could hollow out IDA in the long run (SB).

The UK government has a strong priority on alignment (pillar 1). It wants the World Bank to be more selective and wishes to see more evidence on the added value of BETFs, especially whether or not they dilute the focus of the World Bank (SB). To further alignment, DFID headquarters considers UFs to be very useful.

In the mid-2000s, DFID like other donors has contributed to the mushrooming of TFs. DFID is fairly decentralized in that small teams manage their own budgets. This facilitated funding agreements with the World Bank, which has become even more decentralized since the Wolfensohn era. DFID has welcomed the joint portfolio review with the World Bank, which increased transparency on existing TFs and developed potential for consolidation. Indeed, the number of its TFs declined from 220 to 175, which the World Bank considers a major success to be repeated with other donors. From an efficiency perspective, the UK has realized that micro-managing TFs is too costly for its own administrative budget. It therefore embraces the umbrella principles. Also, the UK believes it is important that the World Bank must balance its revenue and expenditure (pillar 3).[105]

2. Netherlands

2.1 Engagement strategy

Dutch engagement with the World Bank evolved considerably over the last decade. Motives for engagement shifted from an initial focus on shaping the work agenda of the World Bank to a more recent emphasis on enhancing the effectiveness of a narrower portfolio of activities. However, the Netherlands has constantly sought to pursue its bilateral priorities through TFs.[106]

In the early 2000s, Dutch support through the Bank-Netherlands Partnership Program facilitated World Bank activities in areas such as poverty, gender, sustainability, and anti-corruption policies.[107] Phased out in FY12, BNPP was a Dutch umbrella fund consisting of free-standing TFs for BETFs on innovative approaches and a pass-through window to programmatic TFs, notably MDTFs. In addition, the NIPP consolidates project-specific TFs with IFC.[108] Both the BNPP and NIPP have been successful from the Dutch perspective in that previously innovative development themes have become mainstreamed in the World Bank.[109]

In the mid-2000s, the Netherlands intensified its engagement with the World Bank through both scaling up IDA and supporting fragile states through TFs. Over FY00-11, half of the Dutch contributions addressed basic education and fragile states. In terms of country priorities, the Dutch portfolio mainly targets Indonesia and Ethiopia,[110] which reinforces its bilateral development cooperation that includes 36 countries.[111]

More recently, the Netherlands has reconsidered its multilateral engagement as part of changing bilateral policies, by now focusing on the four themes fragile states, water, food security, and reproductive health.[112] The increased focus of the IBRD/IDA TFs portfolio is mainly due to cuts in the aid budget and the prioritization of private-sector development through IFC TFs by the conservative government. Yet, the Netherlands is still the second largest contributor to IBRD/IDA TFs after the UK, while making almost no use of FIFs.[113]

The Netherlands lacks an explicit strategy to guide its interaction with the World Bank. The foreign ministry and the finance ministry jointly coordinate overall World Bank policies. The TF portfolio is managed by the foreign affairs team at The Hague,[114] but small-

[105] Interview with ED office.

[106] Interviews with GEDO and CFPTO staff member.

[107] Klugkist (2013): 6.

[108] MOFA (2013): 42.

[109] Klugkist (2013): 15.

[110] Ibid.: 6.

[111] DSW (2013).

[112] Ibid.: 7 and interview with CFPTO staff member.

[113] MOFA (2013): 95.

[114] Ibid.: 50.

er programs are run by the Dutch embassies.[115] The governance relationship witnessed a major transition in the last decade, as evidenced by the BNPP. Initially, the Netherlands were deeply involved, even reviewing project proposals. By now, it fully delegates all processes to the World Bank. This is due to own processing constraints, but even more so due to the BNPP results framework (2007), annually updated in mutual strategic consultations. It includes indicators for the entire program and its individual windows. As a result, official involvement of Dutch staff has decreased, with exceptions in water and fragile states.[116] Beyond the experience with BNPP, it is still true that the Netherlands are among the more active donors in managing their TFs. A World Bank manager mentioned the Netherlands along with DFID and SIDA when it comes to participation in supervision missions.[117]

2.2 Trust fund reform process priorities

The Netherlands supports the TF reform process at the World Bank, including thematic umbrella facilities and improved selectivity by the World Bank.[118] This ties in with its own objective of further increasing the focus of its TF portfolio. Moreover, the Netherlands work towards enhanced coordination of TF engagement by the foreign ministry of affairs.[119]

The Dutch position on the TF reform agenda must be seen in the light of its own changing bilateral priorities. The Netherlands re-considers its balance between TFs and IDA in favor of the latter. The Netherlands seeks to pursue priorities through IDA, together with like-minded donors such as the United Kingdom, Germany (for example on the effective deployment of staff), and the Nordics.[120]

3. Switzerland

3.1 Engagement strategy

The Swiss Economic Cooperation Department (SECO) and the Swiss Development Cooperation Department (SDC), the two Swiss departments conducting development activities, only have about 600 staff members. Given its capacity constraints in bilateral development cooperation, Switzerland uses TFs to expand its global presence while at the same time being able to ensure visibility of its multilateral engagement. Switzerland appreciates the World Bank for its expertise, its reputation, and its high efficiency. It focuses its support to the World Bank on IDA, whereas TFs only play a secondary role.[121] Facing a decision between TFs and IDA, Switzerland engages in TFs only when showing the “Swissness” of a program is a priority, given that TFs ensure a higher visibility to domestic constituencies than general contributions to IDA.[122]

Switzerland currently does not have a headquarter-level engagement strategy for TFs. Its TF portfolio reflects national development priorities for specific sectors and countries as well as its concern with keeping the World Bank an efficient development institution. First, Switzerland traditionally maintains strong bilateral relations with some middle-income countries, which are not eligible for IDA core support. TFs ensure that Swiss aid targets those countries, for example the Balkans, the Central Asian mountain republics, and a few Latin American countries. Recently, the World Bank has approached Switzerland to finance the country umbrella fund for Myanmar. Second, Switzerland uses TFs to reinforce its sector priorities, such as water, energy, and peace building. It is involved in the respective sector programs such as WSP, CGIAR, ESMAP, and the SPBF. Third, together with Germany and the Nordics, Switzerland seeks to strengthen the human rights dimension in World Bank projects.[123] In general, however, Switzerland does not use TFs to advocate non-core issues at the World Bank. It also has never used TFs due to pressure to spend the budget at the end of the year.[124]

To support the efficiency of World Bank operations, Switzerland focuses its TF engagement on MDTFs and FIFs. Its engagement in SDTFs is limited to BETFs for specific studies, for example related to its bilateral projects.[125] Headquarters of both SECO and SDC seek to be involved in as many sector programs as possible, because they seek to be part of a larger multilateral effort and they hope to learn from World Bank expertise. For example, in the case of EITI, the offer by the World Bank for joint country missions has been actively used by Swiss experts in its priority countries. Switzerland has some country offices in four continents, but capacities in partner countries are even

[115] DSW (2013).
[116] Klugkist (2013): 19.
[117] Interview with CFPVP.
[118] Klugkist (2013): 21.
[119] Ibid.
[120] MOFA (2013): 37.
[121] Interview with ED office.
[122] Ibid.
[123] Interview with OPCS staff member.
[124] Interview with CFPTO staff member.
[125] Interview with ED.

more limited than at headquarters. At the same time, the Swiss foreign aid budget is relatively large. These two features jointly account for the engagement in the programmatic funds, which require less intensive co-ordination with the World Bank than SDTFs.[126]

Switzerland is mentioned along with Germany as one of the most hands-off donors. It is a vocal stakeholder at the formal governing bodies but does not take a leadership role in the strategic management of TFs, given its own capacity constraints. As is welcomed by the World Bank, Switzerland does not micro-manage TFs.

3.2 Trust fund reform process priorities

TFs do not play an important role in the overall Swiss engagement with the World Bank. Switzerland - along with Germany – tends to be more reluctant on TFs than other donors. Therefore, it welcomes reform efforts at the World Bank aimed at better TF management. The Swiss ED office is an even more vital supporter of the TF reform agenda than headquarters in Berne.

Switzerland prioritizes strategic alignment of TFs – the first pillar of the reform agenda. TFs should be fully aligned with core World Bank mandates, even if this would imply the close-down of existing Swiss funds should the World Bank consider them to be misaligned.

The next priority refers to measures to enhance the efficiency of TFs – the third pillar of the agenda. The ED office strongly advocates consolidation, while headquarters are more reluctant. Switzerland sees the TF reforms as a necessary instrument to maintain overall effectiveness. The high return on investment and the track record of results have been major motivations for Switzerland to collaborate with the World Bank. Distinct measures welcomed by the Swiss ED to enhance efficiency include higher fees for TF management.

With respect to strategic oversight, Switzerland favors stronger control of TFs by the Executive Board and senior management. Switzerland is particularly concerned that the World Bank has become dependent on individual donors for certain knowledge products, for example the World Development Report, a third of which financed by DFID.[127]

[126] Interview with IFC staff member, DEZA (2013).

[127] Interviews with EAP staff member, CFPTO staff member.

4. Sweden

4.1 Engagement strategy

Sweden formulated spending targets on foreign aid already in the 1980s. However, bilateral aid has not been an option to manage the resource increase if administrative costs should remain under control. TFs at the World Bank therefore became a popular instrument because they allow Sweden to “get more money out with less own personnel”.[128] TFs enable Sweden to reach a larger number of partner countries where it wishes to focus its engagement, to commit to funding for many years, and to share burdens with like-minded donors.[129] Sweden favors core funding, but there are specific reasons for preferring TFs over core budget in three specific circumstances. First, Sweden engages in TFs to advocate non-core issues where the World Bank would otherwise not have been involved. Key examples of such issues include human rights, social accountability, gender, and the environment. These are high-priority issues, underpinned by the fact that Sweden even sends its own staff to the respective TF secretariats. Second, Sweden sees a distinct value of TFs as a vehicle to support important clusters of activities, such as fragile states. Other priority themes are water, energy, and peace building. In contrast, Sweden does not have a strong focus on specific countries. In the Eurasian region, for example, it supports the Balkans and Central Asian countries along with Switzerland.[130]

Sweden is comparable to DFID in that funding decisions are fairly decentralized. Headquarters manages the global agenda and sector-specific TFs. While the majority of funds co-finances activities arising from country demand, the SDTFs at headquarter level tend to originate from Swedish sector priorities. In dealing with World Bank network units, headquarters occasionally have earmarked contributions to programmatic funds by specific sub-sectors.[131] This creates a challenge for the World Bank as much as earmarking by specific countries in those TFs. Key concerns for Sweden when it comes to formal reporting are transparency and results frameworks. Particularly since the financial crisis, Sweden has become more operationally involved.

[128] Interviews with OPCS staff member and ED office.

[129] Interview with ED office.

[130] Interview with ECA staff member.

[131] Interviews with AFR staff member and GEDO.

The main reason is that SIDA must prove to the Swedish parliament how funds were used and whether they generated satisfactory results. Impressed by domestic pressure to show "value for money", Sweden demanded greater say on how the World Bank implements projects. While many donors have the willingness to micro-manage TFs, World Bank staff asserts that Sweden is among the few donors with the capacity to do so, given its decentralized structure. According to one official, SIDA sometimes insisted on participating in supervision missions and clearance of World Bank reports on substantive results and next steps.[132] Like other donors that have come under pressure due to the financial crisis, Sweden has tightened its financial controls on TFs, while becoming less engaged in the strategic dialogue.[133]

4.2 Trust fund reform process priorities

Sweden generally supports the TF reform process. A key priority is consolidation. Consolidation is in the Swedish interest because the growing TF portfolio does not match up with its own limited administrative capacities. Sweden seeks to consolidate its portfolio in three ways. First, it closes down dormant funds, welcoming any action taken by the World Bank in this respect. Second, Sweden consolidates its portfolio along thematic lines, and thanks to more guidance from headquarters, the earlier trend to locally raise funds has been reversed in favor of a more centralized approach. Third, Sweden advocates larger projects and replaces SDTFs by MDTFs wherever possible. However, there are issues with umbrella facilities that Sweden wants the World Bank to address more thoroughly. In particular, to the extent that the size of TFs increases through UFs, the question arises how the standard reporting will be able to address Swedish concerns.[134] On the issue of business process integration (pillar 2), Sweden thinks that the World Bank should streamline its TF operations.

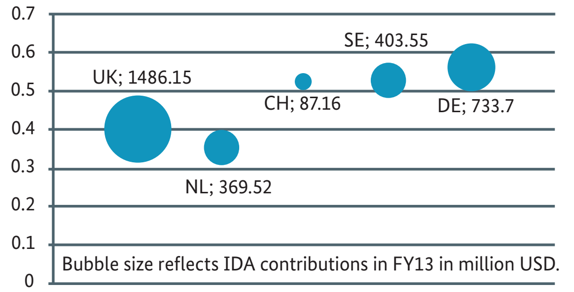
[132] Interview with CFPVP staff member.

[133] Interview with CFPTO staff member.

[134] Ibid.

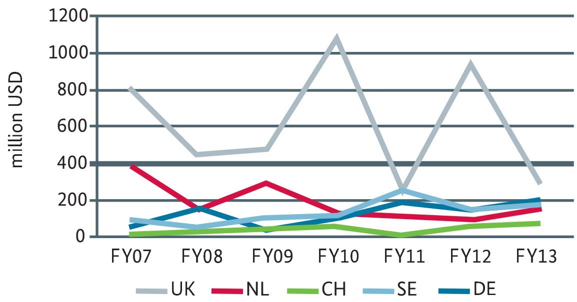
5. Comparative statistics

IDA share as of total Bank Contributions (FY08-FY-13)



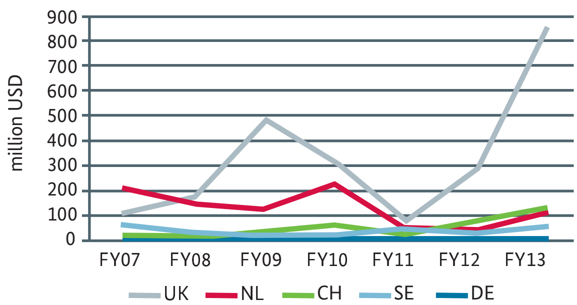
Source: Aidflows (2013).

New MDTFs conributions



Source: Aidflows (2013).

New MDTFs conributions



Source: Aidflows (2013).

Annex 4: List of trust fund contributions per German institution

TF-No.	Trust Fund Title	Program	Main Topic	Total Contribution in USD****	% of size of TF
BMZ					
TF050576	Afghanistan Reconstruction Trust Fund* (MDTF)	ARTF	Fragile State	39,963,400	1
TF021945	Brazilian Rain Forest Trust Fund (MDTF)	BRF	Protecting the Climate	6,475,675	9
TF071077	Carbon Fund of the Forest Carbon Partnership Facility** (MDTF)	CARBON	Protecting the Climate	121,193,677	30
TF023589	Cities Alliance MDTF	CITIES	Urban Development	1,779,101	6
TF054674	Cities Alliance MDTF***	CITIES	Urban Development	3,762,895	6
TF072025	Debt Service MDTF for the Palestinian Authority	DS	Development Financing	2,000,000	8
TFM53689	Education for All Fast Track Initiative Secretariat (MDTF) ***	FTI-S	Education	125,608	0.5
TF070968	Education For All Fast Track Initiative Catalytic Trust Fund II (MDTF)	EFAFTI	Education	42,405,397	47
TF050900	Financing for of the Joint United Nations Development Program (UNDP)/World Bank Energy Sector Management Assistance Program (SDTF)	ESMAP	Energy	20,101,302	100
TF071398	Energy Sector Management Assistance Program (MDTF)	ESMAP	Energy	4,023,045	4
TF020673	Financing for the Consultative Group to Assist the Poor MDTF***	CGAP	Financial Sector	422,123	1
TF053676	Financing for the Consultative Group to Assist the Poor MDTF (Successor to TF020673)	CGAP	Financial Sector	3,985,089	7
TF024570	General Support of Infodev's Core Funding to Assist in Carrying out Infodev's Global Activities (MDTF)	INFOD	Business	644,910	6
TF022835	Germany Donor Funded Staffing Program (SDTF)	DFSP	Methods	18,708,461	100
TF070880	Labor Markets, Job creation and Economic Growth: Scaling up Research, Capacity Building, and Action on the Ground Trust Fund (MDTF)	JOBCRT	Business	2,144,930	33

* TF held by BMZ and KfW. ** TF held by BMZ and BMU. *** TF held by BMZ and GIZ. **** As of October 2013.

TF-No.	Trust Fund Title	Program	Main Topic	Total Contribution in USD****	% of size of TF
TF070611	Mainstreaming Disaster Reduction Initiative of the Global Facility for Disaster Reduction and Recovery (MDTF)	GFDRR	Disaster Management	21,904,624	13
TF054838	MDTF for Aceh and North Sumatra (MDT-FANS)	ID-ACH	Disaster Management	13,930,600	2
TF070711	MDTF for Low-Income Countries for the Financial Sector Reform and Strengthening Initiative (FIRST)	FIRST	Financial Sector	4,972,005	5
TF070723	MDTF for Middle-Income Countries for the Financial Sector Reform and Strengthening Initiative (FIRST)	FIRST	Financial Sector	3,720,920	10
TF071202	MDTF for the Debt Management Facility for Low Income Countries	DMF	Development Financing	1,000,000	5
TF053509	MDTF for the Extractive Industries Trans-parency Initiative ("EITI") Implementation Support	EITI	Raw Materials	2,676,158	5
TF070385	MDTF for the Information for Development Program	INFOD	Business	1,630,520	14
TF053980	Public-Private Infrastructure Advisory Facility Trust Fund II (MDTF)	PPIAF	Business	2,144,930	4
TF071076	Readiness Fund of the Forest Carbon Partnership Facility (MDTF)	FCPFR	Protecting the Climate	5,2397,850	21
TF071021	State- and Peace- Building MDTF	SPBF	Fragile State	873,275	0.4
TF071893	Umbrella Facility for Gender Equality (UFGE) (MDTF) ***	GENTF	Gender	338,682	1
GIZ					
TFM53689	Education for All Fast Track Initiative Sec-retariat MDTF***	FTI-S	Education	194,000	0,5
TF020673	Financing for the Consultative Group to Assist the Poor MDTF***	CGAP	Financial Sector	523,614	2
TF071953	Global Knowledge Program on Migration and Development (MDTF)	FS-DEC	Migration	2,368,801	70
TF071796	Malawi Public Finance and Economic Management Reform Program (MDTF)	PFEMRP	Good Governance	521,515	5
TF070891	MDTF for Development Marketplace for African Diaspora in Europe (D-MADE)	MDDMAD	Business	87,504	9
TF055155	MDTF for Land Policies for Growth and Poverty Reduction	SPTF	Good Governance	110,327	4
TF051459	MDTF for Program for Forests (PROFOR)	PROFOR	Protecting the Climate	1,189,898	3
TF070918	MDTF for Trade Development Facility	LA-TDF	Business	375,172	4
TF070941	MDTF to Support Analytical Work within the Context of the Zimbabwe IDA's Interim Strategy Note FY08-09	ZWAMTF	Fragile State	513,150	7

TF-No.	Trust Fund Title	Program	Main Topic	Total Contribution in USD****	% of size of TF
TF071603	MDTF for Zimbabwe (Successor to TF070941)	ZWAMTF	Fragile State	333,650	3
TF071382	MDTF for Poverty and Social Impact Analysis (PSIA)	PSIA	Methods	2,781,023	14
TF072062	Program-for-Results Support MDTF	PforR	Methods	2,041,660	100
TF070668	Special Initiative of the Global Environment Facility (GEF) Evaluation Office (MDTF)	EOSIC	Protecting the Climate	157,426	11
TF054674	The Cities Alliance MDTF***	CITIES	Urban Development	510,560	1
TF071893	Umbrella Facility for Gender Equality (UFGE) (MDTF)***	GENTF	Gender	6,119,347	16
TF071860	Wealth Accounting and Valuation of Ecosystem Services MDTF	WAVES	Protecting the Climate	1,083,930	5
KfW					
TF050576	Afghanistan Reconstruction Trust Fund (MDTF)*	ARTF	Fragile State	421,115,600	6
TF071778	Bangladesh Health Sector Development Program MDTF	FS-SAR	Health	16,591,250	5
TF050998	Community Development Carbon Fund (MDTF)	CARBON	Protecting the Climate	2,314,386	2
TF071654	Ethiopia Protection of Basic Services Social Accountability Program (MDTF)	EPBS	Good Governance	10,402,700	46
TF071424	KP/FATA/Balochistan MDTF	PKNW	Fragile State	11,228,800	7
TF070859	Liberia Reconstruction Trust Fund (MDTF)	LRTF	Fragile State	47,294,500	27
TF054723	MDTF for Southern Sudan (MDTF-SS)	MDTFSS	Fragile state	12,027,000	2
TF071857	MDTF for the Africa Climate Change Program	AFRCC	Protecting the Climate	397,470	13
TF070732	MDTF for the Protection of Basic Services Program Secretariat in Ethiopia	AFRHD	Good Governance	146,960	7
TF071294	MDTF for Transitional Demobilization and Reintegration Program (TDRP) in the Great Lakes Region	TDRP	Fragile State	2,651,711	8
TF071228	Second Emergency Demobilization and Reintegration Project in Rwanda (MDTF)	AFRSD	Fragile State	1,445,000	20
BMU					
TF071670	Partnership for Market Readiness MDTF	PMR	Protecting the Climate	6,508,500	6
TF071077	Carbon Fund of the Forest Carbon Partnership Facility**	CARBON	Protecting the Climate	12,963,000	3

Source: World Bank (2013a), attribution to main areas by joyn-coop.

* TF held by BMZ and KfW. ** TF held by BMZ and BMU. *** TF held by BMZ and GIZ. **** As of October 2013.

Annex 5: List of Financial Intermediary Funds with German contribution

TF No.	FIF Title	Partner	Sector	Total Contribution in USD	% of total size of FIF
29840	GEF-Trust Fund	BMZ	Protecting the climate	1,665,112,798	13
69002	Special Climate Change Fund	BMZ	Protecting the climate	79,945,690	31
69004	TF for the Least Developed Countries Fund for Climate Change	BMZ	Protecting the climate	54,618,650	1
69011	Clean Technology Fund	BMZ	Protecting the climate	615,000,000	27
69012	Strategic Climate Fund	BMZ	Protecting the climate	65,672,300	2
69013	Adaptation Fund	BMZ	Protecting the climate	13,883,000	4
69022	Green Climate Fund TF	BMZ	Protecting the climate	1,052,920	14
50676	GFATM	BMZ	Health	251,491,342	1
50169	African Program for Onchocerciasis Control (APOC) Phase II Contribution	BMZ	Health	0	0
69020	Global Partnership for Education Fund	BMZ	Education	2.,103,000	0.2
69005	Consultative Group on International Agricultural Research (CGIAR) MDTF	BMZ	Agriculture	263,037	0
28981	HIPC - GERMANY - APEX (SDTF)	BMZ	Development Finance	186,495,809	100

Source: World Bank (2013a)

Annex 6: Selection criteria for case studies

TF Nr.	TF Name	Partner	Sector	BE / RE	German Contribution in USD	Date of AA	% of TF size / % of German TF portfolio	Fee
50900 & 71398	1) World Bank ESMAP SDTF 2) ESMAP MDTF	BMZ	Energy	1) BETF 2) BETF	20,101,302 4,023,045	20.12.2002 29.11.2011	100/ 2 4 / 0.4	5% 1%
53689 & 70968	1) Education for All Fast Track Initiative Secretariat MDTF 2) Education For All Fast Track Initiative Catalytic TF II	1) BMZ, GIZ 2) GIZ	Education	1) BETF 2) RETF	125,608 (BMZ) & 194,000 (GIZ) 42,405,397 (BMZ)	30.05.2008 19.12.2007	1 / 0.03 47 / 4.4	2% 0,2%
71077	Carbon Fund of the Forest Carbon Partnership Facility	BMZ, BMU	Protecting the climate	RETF	121,193,677 12,963,000 (BMU)	17.10.2008	34 / 14	0%
71893	Umbrella Facility for Gender Equality (UFGE)	BMZ, GIZ	Gender	BETF	6,119,347 (GIZ) 338,682 (BMZ)	18.10.2012	16 / 0.7	2%
71382	Multi-Donor Fund for Poverty and Social Impact Analysis (PSIA)	GIZ	Methods	BETF	2,781,023	16.11.2009	14 / 0.3	2%
72062	Program-for-Results Support Multi-Donor Trust Fund	GIZ	Methods	BETF	2,041,660	6.12.2013	100/ 0.2	2%
71294	MDTF for Transitional Demobilization and Reintegration Program (TDRP) in the Great Lakes Region	KfW	Fragile states	BETF	2,651,711	15.11.2012	8 / 0.3	1%
71778	Bangladesh Health Sector Development Program Multi-Donor Trust Fund	KfW	Health	RETF	16,591,250	18.11.2012	5% / 1,7%	1%

Source: World Bank (2013d).

Annex 7: Rationale and challenges of trust funds

Rationale from the donor side (as contributor) for choosing TFs as a funding vehicle:

(i) Administrative advantages:

- Possible to expand global reach without increasing own administrative costs
- Multilateral contributions possible outside the three year IDA cycle
- Flexible funding instrument especially in areas in which core funding cannot legally be used, for example fragile states and middle-income countries
- Provide donors with a means to enhance the visibility of their multilateral contribution and to show "value for money" to their taxpayers

(ii) Agenda setting:

- Implementing TFs: enable donors to complement their own bilateral portfolio
- Knowledge creation TFs: enable donors to focus aid on emerging development issues
- Against the World Bank and its shareholder, donors regain control over multilateral disbursement through the possibility of prioritizing specific development issues over other broader, or pre-set goals when contributing[135]

Rationale from the World Bank / shareholder side for accepting TFs as trustee:

(i) Administrative advantages:

- TFs have been integrated in overall budget planning and overall strategic planning. They have thus become a long-term funding instrument at the World Bank

(ii) Agenda setting:

- From a World Bank point of view, TFs are a means to pilot new or innovative approaches or new instruments at a smaller scale, for which neither the shareholders nor the recipients would use core funding
- It is also a means to be innovative on certain global public goods (e.g. climate change mitigation and resilience) and a broad range of knowledge products

Challenges and caveats of TFs from a donor (contributor) point of view:

(i) Administrative implications

- Risk of fragmentation of own portfolio, implying the need for monitoring, and increased HR resources

Challenges and caveats of TFs from a World Bank / shareholder point of view:

(i) Administrative burden:

- Increased transaction costs due to separate fund-keeping and additional reporting Those costs vary across types of TFs, but they are always higher than for core funds [136]
- When fees do not recover actual costs, including overheads in central units, the World Bank would need to subsidize those overheads with its core funds
- In addition to financials, the World Bank faces an internal governance challenge: Especially in the earlier days, individual task team leaders could raise funds for non-core activities with donors, hardly supervised by senior management and hardly controlled by formal governance bodies, undermining the focus of the World Bank

(ii) Undermining focus and strategy

- TFs may hollow out core funding
- The World Bank might adapt its core agenda to individual donor priorities
- Become a mere implementer of bilateral priorities and adopt an operational bias at the expense of global knowledge activities [137]
- Scrambling for the available funding in an altogether more competitive environment for MAIs [138]

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[135] Sridhar and Woods (2012).

[136] IEG (2011).

[137] Browne and Weiss (2012).

[138] Graham (2012), Mahn (2012), UNDP EO (2012).

Annex 8: Datapool for graphs[139] of the present study

Diagram 1: Cash contributions to World Bank Trust Funds

Cash Contributions, USD billion			
Year	IBRD/IDA	FIFs	IFC TF
2002	1.2	1.4	0
2003	1.2	2.6	0.1
2004	1.8	2.9	0.1
2005	2.0	2.5	0.2
2006	2.4	2.6	0.2
2007	3.7	3.3	0.3
2008	4.0	4.5	0.2
2009	3.6	4.5	0.3
2010	4.3	6.0	1.1
2011	3.9	6.1	0.3
2012	4.3	7.2	0.3

Source: World Bank (2013a), IEG (2011).

Diagram 3: Comparison TF-portfolio structure

Funds held in Trust, FY13, USD million		
	World Bank	Germany
IBRD/IDA	10,020	956
FIFs	19,194	2,096
IFC	787	2

Source: World Bank (2013c), World Bank (2013d), World Bank (2012b).

Cash Contributions						
	World Bank, USD billion			Germany, USD million		
Year	IBRD/IDA	FIFs	IFC TF	IBRD/IDA	FIFs	IFC TF
2008	4.0	4.5	0.2	n/a	n/a	n/a
2009	3.6	4.5	0.3	105	373	2
2010	4.3	6.0	1.1	117	842	0
2011	3.9	6.1	0.3	169	337	0
2012	4.3	7.2	0.3	110	610	0
2013	n/a	n/a	n/a	161	443	1

Source: World Bank (2013c), World Bank (2013d), World Bank (2012b).

[139] No figures available for diagrams 11 and 12.

Diagram 6: Breakdown free-standing and programmatic TFs

Cash Contributions, FY13, USD million		
	World Bank	Germany
Free-standing	792	19
Programmatic	2,658	167

Source: World Bank (2013e).

Number of active TFs				
	World Bank		Germany	
Year	Programmatic	Free-standing	Programmatic	Free-standing
2004	n/a	n/a	12	6
2005	n/a	n/a	16	8
2006	n/a	n/a	22	8
2007	n/a	n/a	23	6
2008	379	378	26	6
2009	410	351	30	5
2010	441	339	32	7
2011	447	301	34	6
2012	463	257	39	6
2013	453	232	44	5

Source: World Bank (2013e).

Diagram 7: Breakdown multi-donor and single-donor TFs

No. of active TF, FY13 Q2		
	World Bank	Germany
SDTF	350	2
MDTF	356	47

Source: World Bank (2013a), World Bank (2013c).

No. of active TF for Top 5 donors, FY13		
	MDTF	SDTF
USA	23	44
UK	657	75
Germany	47	2
Japan	130	141
France	41	2

Source: World Bank (2013a), World Bank (2013c).

Diagram 8: Breakdown Recipient- and Bank-executed TFs

Disbursements, USD million		
	World Bank, FY08-13	Germany, FY08-13 Q2
BETF	2,897	63
RETF	17,530	348

Source: (2013a), World Bank (2013c), World Bank (2013g).

Diagram 9: Comparison by the top five sectors (as defined by World Bank)

Disbursements of RETFs, FY12, %	
	World Bank
Public Admin, Law	28
Education	19
Health & Social Services	16
Agriculture	9
Industry & Trade	8
Other	20

Source: World Bank (2013c).

Disbursements of RETFs, FY12, %		
	Germany	Germany without ARTF
Public Admin, Law	45	13
Health & Social Services	13	20
Transportation	10	16
Education	8	13
Water, Sanit. & Flood Prot.	8	13
Other	16	25

Source: World Bank (2013g).

Diagram 10: Comparison by region

Disbursements of RETFs, USD million			
	World Bank, FY08-13 Q2	Germany, FY09-13	Germany without ARTF, FY09-13
Africa (AF)	5,513	44.5	44.5
East Asia and Pacific (EAP)	3,289	10.4	10.4
Europe and Central Asia (ECA)	1,104	9.0	9.0
Latin America and the Caribbean (LAC)	938	6.6	6.6
Middle East and North Africa (MNA)	2,115	0.3	0.3
South Asia (SA)	4,043	253.2	43.2
Global	528	1.2	1.2

Source: World Bank (2013c), World Bank (2013g).

Diagram 15: Active IBRD/IDA TFs by institution

Active TFs, FY13		
	Volume, USD million	Number[140]
BMZ	251.7	26
- of which FiT	122.3	n/a
GIZ	18.9	12
KfW	525.6	10
BMU	19.4	1

Source: World Bank (2013a).

Diagram 16: Development over time: German contributions to IBRD/IDA TFs

German contributions to IBRD/IDA TFs								
	No. of active TFs per institution				Cash contributions to TFs by institution, USD million			
Year	BMZ	GIZ	KfW	Other[141]	BMZ	GIZ	KfW	Other
2004	14	5	6	1	3.7	2.5	2.2	1.2
2005	17	6	7	1	22.1	4.9	2.3	1.3
2006	20	7	8	2	15.2	1.8	11.9	0.5
2007	18	7	9	2	13.2	6.2	45.7	1.2
2008	21	10	8	1	9.9	3.2	58.8	0.7
2009	21	12	7	1	15.9	1.7	66.6	0
2010	22	13	8	1	31.9	2.3	53.0	0
2011	23	13	9	1	47.5	0.3	107.4	13,3
2012	26	12	10	2	32.4	1.04	82.3	6,5
2013	26	16	11	2	50.4	13.25	103.7	0

Source: World Bank (2013a).

[140] There are 49 TFs with German contributions and 55 active TF contributions. Six TFs are hence held by two German institutions. Here, all of these six TFs are allocated to BMZ.
[141] Ministry of Environment, Ministry of Consumer Protection, not allocated; up from 2009 only Ministry of Environment (BMU).

Diagram 17: Volume and number of TFs by size of contribution

Size of contribution, FY13, USD million						
	Volume			Number of TFs		
Size	BMZ	GIZ	KfW	BMZ	GIZ	KfW
>20	298	0	468	6	0	2
10-20	33	0	50	2	0	4
5-10	6	6	0	1	1	0
2-5	30	5	5	9	2	2
<2	7	6	2	8	12	3

Source: World Bank (2013a).

Diagram 18: Split among German main topics

	Number of active TFs, FY13		Volume in active TFs, FY13, USD million	
	BETF	RETF	BETF	RETF
Fragile states/ disaster management	4	8	25.4	547.8
Protecting the climate	9	1	178.7	6.5
Business	4	2	8.7	0.5
Financial sector	5	0	13.6	0
Good governance	2	2	257.3	10.9
Education	2	1	319.6	42.3
Methods	3	0	23.5	0
Urban development	2	1	4.3	1.8
Development financing	1	1	1.0	2.0
Energy	2	0	22.7	0
Gender	2	0	6.5	0
Health	0	1	0	16.6
Raw materials	1	0	2.7	0
Migration	1	0	2.4	0

Source: World Bank (2013a).

Diagram 19: Key data for FIFs with German contribution

Key data			
	Total contribution, FY13, USD million	No. of FIFs, FY13	Cash Contributions, FY09-13, USD million
Protecting the Climate	2,495	7	1,225
Health	252	2	0
Education	2	1	1
Agriculture	0.2	1	0
Development finance	187	1	83

Source: World Bank (2013a).

Diagram 20: Split among German main topics - FIFs included

	Number of active TFs per institution, FY13					Volume in active TFs, FY13, USD million				
	BMZ	GIZ	KfW	BMU	FIF	BMZ	GIZ	KfW	BMU	FIF
Fragile states/ disaster mgt	4	2	6	0	0	76.7	0.8	495.8	0	0
Protecting the climate	3	3	2	2	7	180.1	2.4	2.7	19.5	2495.3
Business	4	2	0	0	0	8.7	0.5	0	0	0
Financial sector	4	1	0	0	0	13.1	0.5	0	0	0
Good governance	0	2	2	0	0	0	0.6	10.6	0	0
Education	2	1	0	0	1	42.4	0.2	0	0	2.1
Methods	1	2	0	0	0	18.7	4.8	0	0	0
Urban develop-ment	2	1	0	0	0	5.5	0.5	0	0	0
Development fi-nancing	2	0	0	0	1	3.0	0	0	0	186.5
Energy	2	0	0	0	0	22.8	0	0	0	0
Gender	1	1	0	0	0	0.3	6.1	0	0	0
Health	0	0	1	0	2	0	0	16.6	0	251.5
Raw materials	1	0	0	0	0	2.7	0	0	0	0
Migration	0	1	0	0	0	0	2.4	0	0	0

Source: World Bank (2013a).

Diagram 21: German contributions to RETF versus BETF

Active TFs, FY13						
	Number			Volume, USD million		
Type	BMZ	GIZ	KfW	BMZ	GIZ	KfW
RETF	19	12	4	266.6	15.8	5.5
BETF	7	3	7	107.3	0.9	520.1

Source: World Bank (2013a).

Diagram 22: German contributions to TFs managed by a regional department versus a network

Active TFs, FY13						
	Number			Volume, USD million		
Type	BMZ	GIZ	KfW	BMZ	GIZ	KfW
Network	19	11	5	339.4	13.3	36.5
Region	7	4	6	34.5	3.6	489.1

Source: World Bank (2013a).

Diagram 23: German contributions to knowledge-creating (K), implementing (I) and hybrid (I/K) TFs

Active TFs, FY13						
	Number			Volume, USD million		
Type	BMZ	GIZ	KfW	BMZ	GIZ	KfW
K	14	10	0	65.3	15.9	0
I	7	5	11	92.1	2.8	525.6
I/K	5	1	0	216.6	0.2	0

Source: World Bank (2013a).

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